

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. **0000950124-99-002086**

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FILER

TECUMSEH PRODUCTS CO

CIK: **96831** | IRS No.: **381093240** | State of Incorp.: **MI** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **000-00452** | Film No.: **99574688**
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 1998 Commission File Number 0-452

TECUMSEH PRODUCTS COMPANY
(Exact Name of Registrant as Specified in its Charter)

Michigan 38-1093240
(State of Incorporation) (I.R.S. Employer Identification No.)

100 East Patterson Street
Tecumseh, Michigan 49286
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (517) 423-8411

<TABLE>
<S><C>
Securities Registered Pursuant to Section 12(b) of the Act: Securities Registered Pursuant to Section 12(g) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered	
None	None	Class B Common Stock, \$1.00 Par Value
		Class A Common Stock, \$1.00 Par Value
		Class B Common Stock Purchase Rights
		Class A Common Stock Purchase Rights

</TABLE>

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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Registrant disclaims the existence of control and, accordingly, believes that as of March 5, 1999 all of the 5,470,146 shares of its Class B Common Stock, \$1.00 par value, then issued and outstanding, were held by non-affiliates of Registrant. Certain shareholders, which, as of March 5, 1999, held an aggregate of 2,279,300 shares of Class B Common Stock might be regarded as "affiliates" of Registrant as that word is defined in Rule 405 under the Securities Exchange Act of 1934, as amended. If such persons are "affiliates," the aggregate market value as of March 5, 1999 (based on the closing price of \$44.00 per share, as reported on the NASDAQ Stock Market on such date) of the 3,190,846 shares then issued and outstanding held by non-affiliates was approximately \$140,397,224.

Numbers of shares outstanding of each of the Registrant's classes of Common Stock at March 12, 1999:

Class B Common Stock, \$1.00 Par Value:	5,470,146
Class A Common Stock, \$1.00 Par Value:	15,138,838

Certain information contained in the Registrant's Annual Report to Shareholders for the year ended December 31, 1998 has been incorporated herein by reference in Parts I and II hereof. Certain information in the definitive proxy statement to be used in connection with the Registrant's 1999 Annual Meeting of Shareholders has been incorporated herein by reference in Part III hereof. The Exhibit Index is located on page 24.

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PART I

ITEM 1. BUSINESS

GENERAL

Tecumseh Products Company (the "Company") is a full-line, independent global manufacturer of hermetic compressors for air conditioning and refrigeration products, gasoline engines and power train components for lawn and garden applications, and pumps. The Company believes it is the largest independent producer of hermetically sealed compressors in the world, as well as one of the world's leading manufacturers of small gasoline engines and power train products used in lawn and garden applications. The Company also produces an extensive line of pumps. Products are sold in over 100 countries around the world.

The Company groups its products into three principal industry segments: Compressor Products, Engine and Power Train Products and Pump Products.

Compressor Products include a broad range of air conditioning and refrigeration compressors, as well as refrigeration condensing units. The Company's compressor products range from fractional horsepower models used in small refrigerators and dehumidifiers to large compressors used in unitary air conditioning applications. The Company sells compressors in all four compressor market segments: (i) household refrigerators and freezers; (ii) room air conditioners; (iii) commercial and residential unitary central air conditioning systems; and (iv) commercial refrigeration applications including freezers, dehumidifiers, water coolers and vending machines. The Company sells compressors to original equipment manufacturers ("OEMs") and aftermarket distributors.

Engine and Power Train Products consist of (i) two- and four-cycle gasoline engines for use in a wide variety of lawn and garden applications and other consumer and light commercial applications and (ii) transmissions, transaxles and related parts for use principally in lawn and garden tractors and riding lawn mowers. The Company sells engine and power train products to OEMs and aftermarket distributors.

Pump Products include (i) small submersible pumps used in a wide variety of industrial, commercial, and consumer applications and (ii) heavy duty centrifugal type pumps used in the construction, mining, agricultural, marine, and transportation industries. The Company sells pump products to distributors, mass merchants and OEMs.

FOREIGN OPERATIONS AND SALES

In recent years, international sales and manufacturing have become increasingly important to the Company's business as a whole. In 1998, sales to customers outside the United States represented approximately 46% of total consolidated net sales. In addition to North American operations,

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compressor products are produced in Brazil, France and India, while engines are produced in Italy.

Products sold outside the United States are manufactured at both U.S. and foreign plants. The Company's European compressor subsidiary, Tecumseh Europe, S.A. ("Tecumseh Europe"), generally sells the compressor products it manufactures in Europe, the Middle East, Africa, Latin America and Asia. Tecumseh do Brasil, Ltda. ("Tecumseh do Brasil"), the Company's Brazilian compressor subsidiary, sells its products principally in Latin America, North America, Europe and the Middle East. The Company also has two manufacturing facilities in India which produce air conditioning and refrigeration compressors for the Indian appliance markets.

In the engine business, the Company's two principal markets are North America, which is generally served by the Company's U.S. manufacturing operations, and Europe, which is served both by the manufacturing operations of the Company's European engine subsidiary, Tecumseh Europa, S.p.A. ("Tecumseh Europa") in Italy, and to a lesser extent, by U.S. export sales.

The Company's dependence on sales in foreign countries entails certain commercial and political risks, including currency fluctuations, unstable economic or political conditions in some areas and the possibility of U.S. government embargoes on sales to certain countries. The Company's foreign manufacturing operations are subject to other risks as well, including governmental expropriation, governmental regulations which may be disadvantageous to businesses owned by foreign nationals and instabilities in the work force due to changing political and social conditions. These considerations are especially significant in the context of the Company's Brazilian operations given the importance of Tecumseh do Brasil's performance to the Company's total operating results.

COMPRESSOR PRODUCTS

The Compressor Products segment is the Company's largest business segment. A compressor is a device which compresses a refrigerant gas. When the gas is later permitted to expand, it absorbs and transfers heat, and produces a cooling effect which forms the basis for a wide variety of refrigeration and air conditioning products. All of the compressors produced by the Company are hermetically sealed. The Company's current compressor line includes reciprocating and rotary designs.

PRODUCT LINE

The Company manufactures and sells a wide variety of traditional, reciprocating compressors suitable for use in all four compressor market segments. These range in size from 12.5 HP compressors for unitary air conditioning applications to small fractional HP compressors for refrigerators, dehumidifiers and vending machines.

The Company also produces rotary compressors ranging from 5,000 to 18,000 BTU/hr for use in room and mobile air conditioning applications. Rotary compressors generally provide increased

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operating efficiency, lower equipment space requirements, and reduced sound levels when compared to reciprocating designs.

Scroll compressors generally offer improved energy efficiency and reduced noise levels compared to traditional reciprocating designs and are generally preferred by OEMs for certain products, including unitary central air conditioning systems and certain commercial applications. The Company believes that successful development of a commercially saleable scroll is necessary to maintain its participation in the unitary compressor market.

The Company has made several design efforts in an attempt to develop a commercially acceptable scroll compressor product. Over the last five years, the Company has invested approximately \$55 million dollars in a scroll compressor facility in Tecumseh, Michigan. After experiencing setbacks and unacceptable testing results, the original scroll compressor design was abandoned, and a new design was developed. During 1998, the Company made substantial progress in the development of the re-designed scroll compressor, and in 1999, the Company anticipates offering for sale its new scroll product in very limited quantities. However, the Company believes it will take some time before a decision is reached to produce a scroll compressor product line in viable commercial quantities. The Company anticipates that a substantial additional investment will be required to move forward with the decision to produce the scroll compressor in quantities sufficient to sustain profitability.

Due to the lengthy introduction period involving limited production and based on expected manufacturing costs and market conditions surrounding the scroll compressor, the Company estimated that the future cash flows from this product line would not be sufficient to cover the carrying amount of the Company's assets dedicated for scroll production. Accordingly, the Company recorded an asset impairment charge of \$45 million against these assets in 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Nonrecurring Charge" and Note 13 of the Notes to Consolidated Financial Statements in the Company's Annual Report to Shareholders for the year ended December 31, 1998 for a discussion of the impact of the asset impairment loss on the Company's financial condition and results of operations.

MANUFACTURING OPERATIONS

Compressor Products manufactured in the Company's U.S. plants accounted for approximately 53% of 1998 compressor sales. The balance was produced at the Company's manufacturing facilities in Brazil, France and India. The compressor operations are substantially vertically integrated, and the Company manufactures a significant portion of its component needs internally, including electric motors, metal stampings and glass terminals. Raw materials are purchased from a variety of non-affiliated suppliers. The Company utilizes multiple sources of supply and the required raw materials and components are generally available in sufficient quantities.

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SALES AND MARKETING

The Company markets its U.S., Brazilian and Indian built compressors under the "Tecumseh" brand and French built compressors under the "Tecumseh Europe-L'Unite Hermetique" brand. The Company sells its Compressor Products in North America primarily through its own sales staff. Major OEM customers are assigned to sales staff on an account basis. Other customers, (aftermarket wholesalers and smaller commercial OEM's) are served by sales personnel assigned to specified geographic regions. The Company's U.S. Export division and Brazilian, French and Indian subsidiaries each have their own sales staff. In certain foreign markets, the Company also uses local independent sales representatives and distributors.

Substantially all of the Company's sales of Compressor Products for room air conditioners and for household refrigerators and freezers are to OEMs. Sales of Compressor Products for unitary central air conditioning systems and commercial applications include substantial sales to both OEM and distributor customers.

The Company has over 1,200 customers for Compressor Products, the majority of which are commercial customers. In 1998, the two largest customers for Compressor Products accounted for 7.9% and 4.9%, respectively, of segment sales, or 4.7% and 2.9%, respectively, of consolidated net sales. Loss of either of these customers could have a material adverse effect on the results of operations of the Compressor Products segment and, at least temporarily, on the Company's business as a whole. Generally, the Company does not enter into long-term contracts with its customers in this segment. However, the present business relationships with all major customers have existed for a substantial period of time.

In 1998, approximately 30% of the Compressor Products produced by the Company in its U.S. plants were exported to foreign countries. The Company exports to over 100 countries. Over three-quarters of these exported products were sold in the Far and Middle East.

COMPETITION

All of the compressor market segments in which the Company operates are highly competitive. Participants compete on the basis of delivery, efficiency, noise level, price and reliability. The Company competes not only with other independent compressor producers but also with manufacturers of end products, which have internal compressor manufacturing operations.

The domestic unitary air conditioning compressor market consists of OEMs and a significant compressor aftermarket. The Company competes primarily with two U.S. manufacturers, Copeland Corporation, a subsidiary of Emerson Electric, Inc., and Bristol Compressors, Inc., a subsidiary of York International Corporation. Copeland Corporation enjoys a larger share of the domestic unitary air conditioning compressor business than either Bristol Compressors, Inc. or the Company.

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Over the last several years there has been an industry trend toward the use of scroll compressors in the unitary air conditioning market. Copeland Corporation and other compressor manufacturers have had scroll compressors as part of their product offerings for some time. Along with its own manufacturing capabilities, Copeland Corporation is also a member of the Alliance Scroll manufacturing joint venture with two major U.S. central air conditioning manufacturers, American Standard's Trane air conditioning division and Lennox International, Inc. Carrier Corporation, a subsidiary of United Technologies and a major OEM, has a joint venture to produce scroll compressors with Bristol Compressors, Inc.

As discussed in the product line section, the Company has made a significant investment in a scroll compressor facility in Tecumseh, Michigan and stands ready to offer a scroll compressor product for sale in limited quantities in 1999. Because the Company believes that the scroll compressor is important to maintaining its position in the unitary air conditioning market, it plans to pursue the development of the scroll compressor in a manner that limits risk to the Company. The strategy will be to enter the market slowly with the intention of limiting the exposure to technical problems and with the intention of controlling the operating losses.

In the domestic room air conditioning compressor market, the Company competes primarily with foreign companies, which export compressors to the United States but also have U.S. manufacturing capabilities. The Company also competes to a lesser extent with U.S. manufacturers. Competitors include Matsushita Electric Industrial Corporation, Rotorex, Inc., Sanyo Electric Trading Company, L.G. Electronics, Inc. and others.

In the domestic markets for water coolers, dehumidifiers, vending machines, refrigerated display cases and other commercial refrigeration products, the Company competes primarily with compressor manufacturers from the Far East, Europe and South America, and to a lesser extent, the United States. Competitors include Matsushita Electric Industrial Corporation, Danfoss, Inc., Embraco, S.A., Copeland Corporation and others.

The household refrigerator and freezer market is vertically integrated with white good producers manufacturing a substantial portion of their compressor needs. The non-captive portion of the household refrigerator and freezer segment is substantially dominated by Far Eastern manufacturers, which export compressors to the United States but are also increasing U.S. manufacturing capabilities. Non-captive and captive competitors include Matsushita Electric Industrial Corporation, Embraco S.A., Danfoss, Inc., AB Electrolux and others.

Tecumseh Europe sells the major portion of its manufactured compressors in Western Europe, and competes in those markets primarily with several large European manufacturers, some of which are captive suppliers, and to a lesser but increasing extent, with manufacturers from the Far East and Brazil. Competitors include AB Electrolux, Embraco S.A., Danfoss, Inc. and others.

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Tecumseh do Brasil sells the major portion of its manufactured compressors in Brazil and other Latin American countries and competes directly with Embraco S.A. in Brazil and with Embraco and several other foreign manufacturers in Latin America.

The Company has two compressor manufacturing subsidiaries in India, Tecumseh Products India, Ltd. and Tecumseh India Private, Ltd., which sell to regional markets. Major competitors include the Indian manufacturers Kirloskar Copeland Ltd., Carrier Aircon Ltd., Godrej, Videocon, BPL and others.

The ability to successfully bring new products to market in a timely manner has rapidly become a critical factor in competing in the compressor products business as a result of, among other things, the imposition of energy efficiency standards and environmental regulations. These factors are discussed below.

NEW REGULATORY REQUIREMENTS

Chlorofluorocarbon compounds ("CFCs"), the primary refrigerants used in household refrigerators and freezers and in commercial refrigeration equipment, have been identified as one of the leading factors causing depletion of the earth's ozone layer. Under a 1992 international agreement, production of CFCs in developed countries was phased out January 1, 1996. The U.S. government has approved several replacement refrigerants, including HFC-134a, HFC-404A, and HFC-507, among others. The Company began producing compressors using alternative refrigerants for the commercial refrigeration market in late 1992 and for the refrigerator and freezer market during 1994. The Company believes that its rapid development of product using non-CFC refrigerant technology has improved its competitive position in these markets. Hydrochlorofluorocarbon compounds ("HCFCs") are used as a refrigerant in air conditioning systems. Under a 1992 international agreement, HCFCs will be banned from new equipment beginning in 2010. However, some European countries began HCFC phase-outs as early as 1998. The Company believes the replacement of HCFCs will accelerate due to the expected availability of alternative refrigerants with better performance characteristics than HCFCs. It is not presently possible to estimate the level of expenditures which will be required to meet industry needs or the effect on the Company's competitive position.

The U.S. National Appliance Energy Conservation Act of 1987 (the "NAECA") will require higher energy efficiency ratings on room air conditioners manufactured after October 1, 2000 and on household refrigerator/freezers manufactured after July 1, 2000. Energy efficiency requirements for unitary air conditioners are expected to be published in October 2000 to be effective in the year 2005. The European Community is expected to announce energy efficiency directives for refrigerators and freezers effective January 1, 2000. The Company has on-going projects aimed at improving the efficiency levels of its compressor products and plans to have products available to meet known energy efficiency requirements. Some of the Company's compressor products already meet or exceed the new energy efficiency standards. It is not presently possible to estimate the level of expenditures which will be required to meet the new standards or the effect on the Company's competitive position.

ENGINE AND POWER TRAIN PRODUCTS

Small gasoline engines account for a majority of the net sales of the Company's Engine and Power Train Products segment. These are used in a broad variety of consumer products, including lawn mowers (both riding and walk-behind types), snow throwers, small lawn and garden tractors, small power devices used in outdoor chore products, generators, pumps and certain self-propelled vehicles. The Company manufactures gasoline engines, both two- and four-cycle types, with aluminum die cast bodies ranging in size from 2 through 17 horsepower and with cast iron bodies ranging in size from 12 through 18 horsepower. The Company's power train products include transmissions, transaxles and related parts used principally in lawn and garden tractors and riding lawn mowers.

MANUFACTURING OPERATIONS

The Company manufactures engines and related components in its five plants in the United States and one plant in Italy. All of the Company's power train products are manufactured in one facility in the United States. Operations of the Company in this segment are partially vertically integrated as the Company produces most of its plastic parts and carburetors, as well as a substantial portion of the aluminum die-castings used in its engines and power train products.

SALES AND MARKETING

The Company markets its Engine and Power Train Products worldwide under the "Tecumseh" and "Peerless" brands. A substantial portion of the Company's engines are incorporated into lawn mowers sold under brand labels, including the "Craftsman" brand of Sears, Roebuck and Co.

A majority of the Company's Engine and Power Train Products are sold directly to OEMs. The Company also sells engines and parts to its authorized dealers and distributors, who service its engines both in the United States and abroad. Marketing of Engine and Power Train Products is handled by the Company's own sales staff and by local sales representatives in certain foreign countries. North America and Europe are the principal markets for lawn and garden products.

In 1998, the two largest customers for Engine and Power Train Products accounted for 28.3% and 18.5%, respectively, of segment sales, or 9.6% and 6.3%, respectively, of consolidated net sales. Loss of either of this segment's two largest customers would have a material adverse effect on the results of operations of this segment and, at least temporarily, on the Company and its business as a whole. There are no long-term contracts between the Company and its major customers, but the present business relationships have existed for a substantial period of time.

COMPETITION

The Company believes it is the second largest producer of small gasoline engines in the world and that the largest such producer, with a broader product range, is Briggs & Stratton Corporation. Other producers of small gasoline engines include Kohler Corporation, Toro Company and Honda Corporation, among others.

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Competition in the Company's engine business is based principally on price, service, product performance and features. As mass merchandisers have captured a larger portion of the sales of lawn and garden products in the United States, price competition and the ability to offer customized styling and feature choices have become even more important. The Company believes that it competes effectively on these bases.

NEW EMISSION STANDARDS

The U.S. Environmental Protection Agency ("EPA") is in the process of final rule development of Phase II emission standards for utility engines which include the two- and four-cycle engines produced by the Company. The Company already produces competitively priced engines that comply with the current EPA and California Air Resources Board (CARB) Standards. The Phase II standards will be finalized in early 1999 for the four-cycle line and in mid-2000 for the two-cycle line. Phase-in of the rules will take place between the 2001 and 2006 model years.

The state of California will begin to enforce the CARB Tier II Emission Standards effective January 1, 2000, at which time all rotary mower and lightweight vertical shaft utility engines will require overhead valve technology in the state of California.

It is not currently possible to determine the related costs of compliance with these standards, nor the impact of these standards on the competitive position of the Company.

PUMP PRODUCTS

The Company manufactures and sells centrifugal pumps and related products through its subsidiary, Little Giant Pump Company ("Little Giant"). Little Giant pumps are used in a broad range of commercial, industrial, and consumer products, including (1) heating, (2) ventilating and cooling, (3) parts washers, (4) machine tools, (5) evaporative coolers, (6) sump pumps, (7) statuary fountains and (8) water gardening. Little Giant's products are sold worldwide to OEMs, distributors and mass retailers. Sales and marketing is executed through Little Giant's own sales staff and manufacturer's representatives under the "Little Giant" brand name.

The Company's other pump subsidiary, MP Pumps Inc. ("MP Pumps"), manufactures and sells a variety of centrifugal pumps ranging in capacity from 15 to 3,700 gallons per minute, that are used in the agricultural, marine and transportation industries and in a variety of commercial and industrial applications and end products. MP Pumps sells both to OEMs, which incorporate its pumps into their end products, and through an extensive network of distributors located throughout the United States, which sell to end-users. A limited number of pumps are also sold to departments and agencies of the U.S. government. Most of MP Pumps' products are sold in the United States. MP Pumps markets its products through its own sales staff under the "MP Pumps" brand name.

The pump industry is highly fragmented, with many relatively small producers competing for sales. Little Giant has been particularly successful in competing in this industry by targeting specific market niches where opportunities exist and then designing and marketing corresponding products.

BACKLOG, CUSTOMERS AND SEASONAL VARIATIONS

Most of the Company's production is against short-term purchase orders, and backlog is not significant.

In 1998, 12.5% of consolidated sales represented engine and compressor sales to customers under the common control of AB Electrolux. Engine and power train product sales to Sears and Sears related suppliers amounted to 10.0% of 1998 consolidated sales.

Both Compressor Products and Engine and Power Train Products are subject to some seasonal variation. Generally, the Company's sales and operating profit are stronger in the first two quarters of the year than in the last two quarters.

PATENTS, LICENSES AND TRADEMARKS

The Company owns a substantial number of patents, licenses and trademarks and deems them to be important to certain of its lines of business; however, the success of the Company's overall business is not considered primarily dependent on them. In the conduct of its business, the Company owns and uses a variety of registered trademarks, the most familiar of which is the trademark consisting of the word "Tecumseh" in combination with a Native American Indian head symbol.

RESEARCH AND DEVELOPMENT

The Company must continually develop new and improved products in order to compete effectively and to meet evolving regulatory standards in all of its major lines of business. The Company spent approximately \$32.4 million, \$32.6 million and \$30.4 million during 1998, 1997 and 1996 on research activities relating to the development of new products and the development of improvements to existing products. None of this research was customer sponsored.

ENVIRONMENTAL LEGISLATION

The Company has been named by the EPA as a potentially responsible party in connection with the Sheboygan River and Harbor Superfund Site in Wisconsin. The Company is also participating with the EPA and various state agencies in investigating possible remedial action that may be necessary at other sites. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Environmental" and Note 8 of the Notes to Consolidated Financial Statements in the Company's Annual Report to Shareholders for the year ended December 31, 1998 for a discussion of the impact of these matters on the Company's financial condition and results of operations. Also see Item 3. Legal Proceedings.

INDUSTRY SEGMENT AND GEOGRAPHIC LOCATION INFORMATION

The results of operations and other financial information by industry segment and geographic location (including the footnotes thereto) for each of the years ended December 31, 1998, 1997 and 1996 appear under the caption "Business Segment Data" of the Company's Annual Report to Shareholders for the year ended December 31, 1998 and are incorporated herein by reference.

EMPLOYEES

On December 31, 1998 the Company employed approximately 18,600 persons, 51% of which were employed in foreign locations. Approximately 3,800 of the U.S. employees were represented by labor unions, with no more than approximately 2,100 persons represented by the same union. The majority of foreign location personnel are represented by national trade unions. The number of the Company's employees is subject to some seasonal variation; during 1998, the maximum number of persons employed was approximately 18,600 and the minimum was 16,700. The Company believes it has a good relationship with its employees.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following are the executive officers of the Company.

<TABLE>
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NAME AND AGE	OFFICE OR POSITION HELD	PERIOD OF SERVICE AS AN OFFICER
<S>	<C>	<C>
Kenneth G. Herrick, 77	Chairman of the Board of Directors	Since 1966
Todd W. Herrick, 56	President and Chief Executive Officer	Since 1974
John H. Foss, 56	Vice President, Treasurer, and Chief Financial Officer	Since 1979
James E. Martinco, 53	Group Vice President, Engine and Power Train (1)	Since 1998
Dennis E. McCloskey, 56	Group Vice President, Compressors (2)	Since 1998

</TABLE>

- (1) Last five years of business experience--Vice President, Engine and Power Train, Tecumseh Products Company 1996 to 1997; Vice President of Operations and Vice President/General Manager of Engine Products 1990 to 1996. (Employed with Tecumseh Products Company since 1976.)
- (2) Last five years of business experience--Vice President, Compressors, Tecumseh Products Company, 1994 to 1997; Group Vice President Refrigeration and Air Conditioning, Frigidaire Company, 1990 to 1993. (Employed at Frigidaire since 1976.)

ITEM 2. PROPERTIES

The Company's headquarters are located in Tecumseh Michigan, approximately 50 miles southwest of Detroit. At December 31, 1998 the Company had 31 principal properties worldwide occupying approximately 8.5 million square feet with the majority, approximately 7.8 million square feet devoted to manufacturing. Eleven facilities with approximately 3.4 million square feet were located in five countries outside the United States. The following table shows the approximate amount of space devoted to each of the Company's three principal business segments.

<TABLE>
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Industry Segment	Approximate Floor Area in Square Feet
<S>	<C>
Compressor Products	5,998,000
Engine and Power Train Products	1,924,000
Pump Products and Other	550,000

</TABLE>

Five domestic facilities, including land, building and certain machinery and equipment were financed and leased through industrial revenue bonds. All owned and leased properties are suitable, well maintained and equipped for the purposes for which they are used. The Company considers that its facilities are suitable and adequate for the operations involved.

ITEM 3. LEGAL PROCEEDINGS

The Company has been named by the EPA as a potentially responsible party in connection with the Sheboygan River and Harbor Superfund Site in Wisconsin. This matter is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 8 of the Notes to Consolidated Financial Statements in the Company's Annual Report to Shareholders for the year ended December 31, 1998, both of which are incorporated herein by reference. As discussed in Note 8, the ultimate costs to the Company will be dependent upon factors beyond its control, such as the scope and methodology of the remedial action requirements to be established by the EPA (in consultation with the State of Wisconsin), rapidly changing technology, and the outcome of any related litigation.

In addition to the matter discussed in the preceding paragraph, the Company is currently participating with the EPA and various state agencies at certain other sites to determine the nature and extent, if any, of remedial action which may

be required of the Company with regard to such other sites.

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Various lawsuits and claims, including those involving ordinary routine litigation incidental to its business, to which the Company is a party, are pending, or have been asserted, against the Company. Although the outcome of the various lawsuits and claims asserted or pending against the Company or its subsidiaries, including those discussed in the immediately preceding paragraph, cannot be predicted with certainty, some may be disposed of unfavorably to the Company. Management has no reason to believe that the ultimate disposition of these pending legal issues will have a materially adverse effect on the future consolidated financial position or income from continuing operations of the Company.

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

No matter was submitted during the fourth quarter of 1998 to a vote of security holders through the solicitation of proxies or otherwise.

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PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information under the captions "Financial Summary" and "Information Concerning Equity Securities" of the Company's Annual Report to Shareholders for year ended December 31, 1998 is incorporated herein by reference. As of a March 5, 1999, there were 739 holders of record of the Company's Class A common stock and 707 holders of the Class B common stock. No equity securities were sold by the Company during the period covered by this report.

ITEM 6. SELECTED FINANCIAL DATA

The information under the caption "Selected Financial Data" of the Company's Annual Report to Shareholders for the year ended December 31, 1998 is incorporated herein by reference.

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

The information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company's Annual Report to Shareholders for the year ended December 31, 1998 is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No information is presented in response to this item because the Company has no material market risk relating to derivative financial instruments, derivative commodity instruments, or other financial instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information on pages 17 to 27, inclusive, of the Company's Annual Report to Shareholders for the year ended December 31, 1998 is incorporated herein by reference. See Item 14 of this report for financial statement schedules.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information pertaining to directors under the caption "Election of Directors" in the Company's definitive Proxy Statement relating to its 1999 Annual Meeting of Shareholders is incorporated herein by reference. Information regarding executive officers required by Item 401 of Regulation S-K is furnished in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information under the captions "Appendix B - Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Election of Directors - Director Compensation" in the Company's definitive Proxy Statement relating to its 1999 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT

The information under the captions "Appendix A - Share Ownership" in the Company's definitive Proxy Statement relating to its 1999 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information under the caption "Compensation Committee Interlocks and Insider Participation" in the Company's definitive Proxy Statement relating to its 1999 Annual Meeting of Shareholders is incorporated herein by reference.

PART IV

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

(a) The following documents are filed as part of this report:

- (1) Financial statements, notes and report on pages 17 through 27 of the Company's Annual Report to Shareholders for the year ended December 31, 1998:
- Statements of Consolidated Income for the years ended December 31, 1998, 1997 and 1996
 - Consolidated Statements of Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996
 - Consolidated Balance Sheets as of December 31, 1998 and 1997
 - Statements of Consolidated Cash Flows for the years ended December 31, 1998, 1997 and 1996
 - Notes to Consolidated Financial Statements
 - Report of Independent Accountants
- (2) Financial Statement Schedules:

<TABLE>
<CAPTION>
Schedule

Form 10-K

Number	Description	Page Reference
<S>	<C>	<C>
II	Valuation and Qualifying Accounts	20

Schedules other than those listed above are omitted because they are either not applicable or are not required.

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(3) Exhibits:

Exhibit Number	Description
(2)	(not applicable)
(3) (a)	The Company's Restated Articles of Incorporation as in effect prior to April 22, 1992 (filed as Exhibit (3) to Annual Report on Form 10-K for the year ended December 31, 1991 (Commission File No. 0-452) and incorporated herein by reference)
(3) (b)	Certificate of Amendment to the Company's Restated Articles of Incorporation adopted April 22, 1992 (filed as Exhibit B-5 to Form 8 Amendment No. 1 dated April 22, 1992 to Form 10 Registration Statement dated April 24, 1965 (Commission File No. 0-452) and incorporated herein by reference)
(3) (c)	Certificate of Amendment to the Company's Restated Articles of Incorporation adopted April 27, 1994 (filed as Exhibit (4) (c) to Quarterly report on Form 10-Q for the quarterly period ended March 31, 1994 (Commission File No. 0-452) and incorporated herein by reference)
(3) (d)	Company's Amended and Restated Bylaws as amended through October 22, 1997 (filed as Exhibit (3) to Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997 (Commission File No. 0-452) and incorporated herein by reference)
(4)	[Note: No instruments defining the rights of holders of long-term debt are being filed because no such instrument authorizes a total amount of securities which exceeds 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company hereby agrees to furnish a copy of any such instrument to the Commission upon request.]
(9)	(not applicable)
(10) (a)	Amended and Restated Class B Rights Agreement (filed as Exhibit 4 to Form 8 Amendment No. 1 dated April 22, 1992 to Form 8-A registering Common Stock Purchase Rights dated January 23, 1991 (Commission File No. 0-452) and incorporated herein by reference)

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(3) Exhibits (continued):

Exhibit Number	Description
----------------	-------------

- (10) (b) Amendment No. 1 to Amended and Restated Class B Rights Agreement (filed as Exhibit 4 to Form 8 Amendment No. 2 dated October 2, 1992 to Form 8-A registering Common Stock Purchase Rights dated January 23, 1991 (Commission File No. 0-452) and incorporated herein by reference)
- (10) (c) Amendment No. 2 to Amended and Restated Class B Rights Agreement (filed as Exhibit 4 to Form 8-A/A Amendment No. 3 dated June 22, 1993 to Form 8-A registering Common Stock Purchase Rights dated January 23, 1991 (Commission File No. 0-452) and incorporated herein by reference)
- (10) (d) Class A Rights Agreement (filed as Exhibit 4 to Form 8-A registering Class A Common Stock Purchase Rights dated April 22, 1992 (Commission File No. 0-452) and incorporated herein by reference)
- (10) (e) Amendment No. 1 to Class A Rights Agreement (filed as Exhibit 4 to Form 8 Amendment No. 1 dated October 2, 1992 to Form 8-A registering Class A Common Stock Purchase Rights dated April 22, 1992 (Commission File No. 0-452) and incorporated herein by reference)
- (10) (f) Amendment No. 2 to Class A Rights Agreement (filed as Exhibit 4 to Form 8-A/A Amendment No. 2 dated June 22, 1993 to Form 8-A registering Class A Common Stock Purchase Rights dated April 22, 1992 (Commission File No. 0-452) and incorporated herein by reference)
- (10) (g) Description of Death Benefit Plan (management contract or compensatory plan or arrangement) (filed as Exhibit (10) (f) to Annual Report on Form 10-K for the year ended December 31, 1992 (Commission File No. 0-452) and incorporated herein by reference)
- (10) (h) Management Incentive Plan, as amended through November 22, 1995 (management contract or compensatory plan or arrangement) (filed as Exhibit (10) (h) to Annual Report on Form 10-K for the year ended December 31, 1995 (Commission File No. 0-452) and incorporated herein by reference)

(3) Exhibits (continued):

Exhibit Number -----	Description -----
(10) (i)	Third Amendment to Management Incentive Plan, adopted January 22, 1997 (management contract or compensatory plan or arrangement) (filed as Exhibit (10) (i) to Annual Report on Form 10-K for the year ended December 31, 1996 (Commission File No. 0-452) and incorporated herein by reference)
(10) (j)	Supplemental Executive Retirement Plan effective January 1, 1995 (management contract or compensatory plan or arrangement) (filed as Exhibit (10) (l) to Annual Report on Form 10-K for the year ended December 31, 1994 (Commission File No. 0-452) and incorporated herein by reference)
(10) (k)	Outside Directors' Voluntary Deferred Compensation Plan adopted November 25, 1998 (management contract or compensatory plan or arrangement)
(10) (l)	Voluntary Deferred Compensation Plan adopted November 25, 1998 (management contract or compensatory plan or arrangement)

- (11) (not applicable)
- (12) (not applicable)
- (13) Portions of Tecumseh Products Company Annual Report to Shareholders for the year ended December 31, 1998, incorporated by reference herein
- (16) (not applicable)
- (18) (not applicable)
- (21) Subsidiaries of the Company
- (22) (not applicable)
- (23) Report and Consent of Certified Public Accountants
- (24) (not applicable)

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(3) Exhibits (continued):

Exhibit Number	Description
(27)	Financial Data Schedule
(99)	(not applicable)

(b) No Reports on Form 8-K were filed by the Company during the last quarter of the period covered by this Report.

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TECUMSEH PRODUCTS COMPANY AND SUBSIDIARIES

SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

(Dollars in millions)

<TABLE>
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Column A	Column B	Column C	Column D	Column E	

Additions					

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Additions and (Deductions)	Balance at End of Period

<S>	<C>	<C>	<C>	<C>	<C>
Allowance for doubtful accounts, deducted from accounts receivable in the balance sheet:				(A)	
1998	\$5.7	\$1.5	-	(\$1.1)	\$6.1
1997	\$6.7	\$0.1	-	(\$1.1)	\$5.7
1996	\$6.9	\$0.2	-	(\$0.4)	\$6.7

</TABLE>

Notes:

(A) Represents the total of accounts charged against the allowance for doubtful accounts and adjustments from the translation of foreign currency.

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SIGNATURES

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

TECUMSEH PRODUCTS COMPANY

/s/ TODD W. HERRICK
By
Todd W. Herrick
President and Chief Executive Officer

Dated: March 24, 1999

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

<TABLE>
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Table with 3 columns: Signature, Office, Date of signing. Rows include Kenneth G. Herrick (Chairman of the Board of Directors), Todd W. Herrick (President, Chief Executive Officer), Ralph W. Babb, Jr. (Director), Peter M. Banks (Director), Jon E. Barfield (Director), and John H. Foss (Vice President, Treasurer and Chief Financial Officer).

and Principal Financial
Officer) and Director

/s/ J. RUSSELL FOWLER

J. Russell Fowler

Director

March 24, 1999

/s/ JOHN W. GELDER

John W. Gelder

Director

March 24, 1999

/s/ STEPHEN L. HICKMAN

Stephen L. Hickman

Director

March 24, 1999

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EXHIBIT INDEX

EXHIBIT
NUMBER

- | | |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------|
| (10) (k) | Outside Directors' Voluntary Deferred Compensation Plan adopted November 25, 1998 (management contract or compensatory plan or arrangement) |
| (10) (l) | Voluntary Deferred Compensation Plan adopted November 25, 1998 (management contract or compensatory plan or arrangement) |
| (13) | Portions of the Company's Annual Report to Shareholders for the year ended December 31, 1998, incorporated by reference herein |
| (21) | Subsidiaries of the Company |
| (23) | Report and Consent of Certified Public Accountants |
| (27) | Financial Data Schedule |

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TECUMSEH PRODUCTS COMPANY

OUTSIDE DIRECTORS' VOLUNTARY DEFERRED COMPENSATION PLAN

(ADOPTED NOVEMBER 25, 1998)

TECUMSEH PRODUCTS COMPANY

OUTSIDE DIRECTORS' VOLUNTARY DEFERRED COMPENSATION PLAN

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TECUMSEH PRODUCTS COMPANY

OUTSIDE DIRECTORS' VOLUNTARY DEFERRED COMPENSATION PLAN

ARTICLE I
PLAN PURPOSES

1.1 The purpose of this Plan is to provide Eligible Directors of the Company with a means of deferring directors' fees and other compensation payable to them for their future services as directors of the Company.

1.2 The Company intends that the Plan be an unfunded, non-qualified deferred compensation plan and that payments under the Plan shall be, when paid or otherwise made available to Participants, deductible pursuant to Section 162 of the Internal Revenue Code of 1986, as amended (the "IRC").

ARTICLE II
DEFINITIONS

As used in this Plan, the following terms shall have the meanings hereinafter set forth:

2.1 "Beneficiary" means any person(s) or legal entity(ies) designated by the Participant or otherwise determined in accordance with Section 5.4.

2.2 "Board" means the Board of Directors of the Company.

2.3 "Committee" means the Governance and Executive Compensation Committee of the Company's Board, or such other committee as the Company's Board may subsequently appoint to administer the Plan.

2.4 "Company" means Tecumseh Products Company, a Michigan corporation, and its successors and assigns.

2.5 "Compensation" means the amount payable to a Participant for serving as a director of the Company, including amounts payable for attending board meetings and for serving on any committee, but excluding any amounts payable for reimbursement of expenses.

2.6 "Deferral Period" means the total period of time, expressed in Plan Years, for which the Participant has elected to defer Compensation.

2.7 "Deferred Compensation" means Compensation deferred pursuant to the Plan.

2.8 "Deferred Compensation Account" means the individual account maintained under the Plan for a Participant as determined under ARTICLE VI.

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2.9 "Deferred Compensation Election Form" means an approved election form that each Participant must execute in accordance with ARTICLE IV in order to participate in the Plan, an example of which is attached hereto as EXHIBIT 1.

2.10 "Director" means a member of a Board.

2.11 "Eligible Director" means an individual who, at the relevant time, is a Director but is not also an employee of the Company. Where the context so requires, this term shall also include a former Eligible Director for whom the Committee maintains a Deferred Compensation Account under the Plan.

2.12 "Market Price" of a Tecumseh Share on any given day means that day's closing price per share on the NASDAQ National Market or, if the Tecumseh Shares are not traded on a particular day, the closing NASDAQ price per share on the closest preceding date on which Tecumseh Shares were traded.

2.13 "Participant" for any Plan Year means an Eligible Director who has elected to defer Compensation in accordance with the procedures set forth in ARTICLE IV and for whom the Committee has established and maintains a separate Deferred Compensation Account.

2.14 "Phantom Share" means a hypothetical or imaginary Tecumseh Share without any of the rights attached to an actual Tecumseh Share, but whose economic value for purposes of the Plan is the same as that of an actual Tecumseh Share.

2.15 "Plan" means the Tecumseh Products Company Outside Directors' Voluntary Deferred Compensation Plan as embodied herein and as amended from time to time by the Company's Board.

2.16 "Plan Year" means the 12 month calendar year beginning January 1 and ending December 31, or such shorter period, as applicable, in the year the Plan is terminated.

2.17 "Rabbi Trust" means an irrevocable trust, containing certain key provisions, which the Internal Revenue Service would require in order to conclude that contributions made thereto by a company, to provide for the payment of non-qualified deferred compensation benefits to its directors, will

not be taxed to directors at the time contributions are made, but instead, at the time the benefits are received or otherwise made available to the director.

2.18 "Subsidiary" means any of the Company's present subsidiary corporations or any corporation which becomes a controlled subsidiary of the Company.

2.19 "Tecumseh Share" means a share of the Company's Class A Common Stock (\$1.00 par value per share).

2.20 "Termination Date" means, for each Participant, the earliest date on which (due to death, disability or any other reason) he or she is no longer an Eligible Director.

2.21 "Valuation Date" means the last business day of either a calendar year or calendar quarter, as the Committee will determine from time to time, the date on which a Participant's

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Deferred Compensation Account is valued for purposes of a hardship distribution pursuant to Section 8.8, and any other date specified by the Committee for valuing a Participant's Deferred Compensation Account.

The masculine pronoun shall be deemed to include the feminine, and the singular number shall be deemed to include the plural, unless a different meaning is plainly required by the context.

ARTICLE III ELIGIBILITY

3.1 Prior to the end of November in each Plan Year, the Committee shall notify Eligible Directors of their eligibility to defer Compensation under the Plan during the following Plan Year. Also, the Committee shall promptly notify newly-elected or newly-appointed Eligible Directors of their eligibility to defer Compensation under the Plan.

ARTICLE IV PARTICIPATION

4.1 Election to Participate. Subject to Section 4.2, in order to participate in the Plan, in respect of Compensation for a particular Plan Year, a Participant must make a valid election by executing and filing with the Committee, before the commencement of such Plan Year, a Deferred Compensation Election Form, an example of which is attached hereto as EXHIBIT 1.

4.2 New Participant. Notwithstanding Section 4.1, a newly-appointed or newly-elected Director who becomes an Eligible Director after the first day of the current Plan Year, may elect to participate in the Plan, with respect to future Compensation for such Plan Year, by filing a Deferred Compensation Election Form within 15 days after being notified of eligibility under Section 4.1.

4.3 Election not Revocable. Except as provided in Section 8.5, a

Deferred Compensation Election Form, once executed and filed with the Committee, cannot be revoked for such current Plan Year's Compensation elected to be deferred pursuant to such form.

4.4 Vesting. A Participant will be vested in his entire Deferred Compensation Account balance at all times and will not be subject to forfeiture for any reason.

4.5 New Elections Permitted for Each Year. A Participant is not required to defer Compensation for any subsequent Plan Year by reason of having elected to defer Compensation for a current or prior Plan Year. Compensation payable in future Plan Years can only be deferred by filing a Deferred Compensation Election Form for the appropriate Plan Year.

4.6 Deferrals in 10% Increments. The minimum amount which may be deferred by a Participant for any Plan Year is 10% of Compensation. Deferrals in excess of the minimum amount shall be in further 10% increments of Compensation.

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ARTICLE V GENERAL PROVISIONS

5.1 No Right to Payment Except as Provided in Plan. No Participant or Beneficiary shall have any right to any payment or benefit hereunder except to the extent provided in the Plan.

5.2 Future Term as a Director. Nothing in the Plan or any Deferred Compensation Election Form shall obligate any Eligible Director or Participant to continue as a director of the Company, or to accept any nomination for a future term as such a director, or require the Company to nominate or cause the nomination of any Eligible Director or Participant for a future term as a director of the Company.

5.3 Recipient Under a Disability. If the Committee determines that any person to whom a payment is due hereunder is a minor, or is adjudicated incompetent by reason of physical or mental disability, the Committee shall have the power to cause the payments becoming due to such person to be made to the legal guardian for the benefit of the minor or incompetent, without responsibility of the Company or the Committee to see to the application of such payment, unless prior to such payment claim is made therefore by a duly appointed legal representative. Payments made pursuant to such power shall operate as a complete discharge of the Company and the Committee.

5.4 Designation of Beneficiary. Each Participant may designate any person(s) or legal entity(ies), including his estate or a trust, as his Beneficiary under the Plan by filing a written beneficiary designation, in prescribed form, with the Committee. A Participant may at any time revoke or change his designation of Beneficiary by filing a new beneficiary designation with the Committee. If no person or legal entity shall be designated by a Participant as his Beneficiary, or if no designated Beneficiary survives him, his estate shall be his Beneficiary.

5.5 Elections. Any election made or notice given by a Participant pursuant to the Plan shall be in writing to the Committee, or to such representative as may be designated by the Committee for such purpose. Notice

shall be deemed to have been made or given on the date received by the Committee or its designated representative.

5.6 Controlling Law. The validity of the Plan or any of its provisions shall be determined under, and it shall be construed and administered according to, the laws of the State of Michigan, without regard to principles of conflicts of law.

ARTICLE VI
DEFERRED COMPENSATION ACCOUNTS

6.1 Accounts. Upon receipt of a Participant's valid Deferred Compensation Election Form, the Committee shall establish, as a bookkeeping entry only, a Deferred Compensation Account for such Participant. The Committee shall thereafter record in each Participant's Deferred Compensation Account for a particular Plan Year, the amount which he elected to defer which otherwise would have been paid to the Participant during the subsequent Plan Year. Such amount shall be credited (as of the date such amount would otherwise have been paid to the

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Participant) to one or more of the Investment Option sub-accounts which the Committee shall make available under the Plan. The initial Investment Options are the Phantom Share Investment Option and the Corporate Bond Investment Option.

6.2 Phantom Share Investment Option. Participant elections for this Option shall be reflected in a bookkeeping sub-account, the value of which shall be based upon the performance of Tecumseh Shares. Amounts deferred will be credited to such sub-account as units, each reflecting one Tecumseh Share. Fractional units will also be credited to such sub-account, if applicable. The number of credited units will be determined by dividing the dollar amount of Compensation deferred by the Market Price of a Tecumseh Share on the date such amount would otherwise have been paid to the Participant. Dividends paid on Tecumseh Shares shall be reflected in such sub-account by the crediting of additional units in such sub-account equal to the value of the dividend and based upon the Market Price of a Tecumseh Share on the date such dividend is paid.

6.3 Corporate Bond Investment Option. Participant elections for this Option shall be reflected in a bookkeeping sub-account, the value of which shall be based upon quarterly crediting of earnings based on the current yield of the DJ 20 Bond Index. Amounts deferred will be credited to such sub-account on the date such amount would otherwise have been paid to the Participant. All amounts reflected in this sub-account shall be credited with earnings, compounded quarterly, from the date credited, based on a rate of return equal to the current yield of the DJ 20 Bond Index as of the last business day of the preceding quarter.

6.4 Adjustments to Accounts. The value of a Participant's Deferred Compensation Account shall be periodically adjusted for any payments made to such Participant in the form of benefits, hardship distributions, or otherwise.

Where adjustment is made to the Phantom Stock sub-account, it shall be reflected in reduction of units determined by the amount paid, divided by the Market Price of a Tecumseh Share on the date of payment.

6.5 Dilutive and Anti-dilutive Transactions Affecting Phantom Shares. The Committee shall make appropriate adjustments to a Participant's Phantom Share Investment Option sub-account where a "capital transaction" or "corporate reorganization" has the effect of changing the economic equivalent number of Phantom Shares units that a Participant has been credited under this Plan. The Committee shall make an adjustment, either positive or negative as the case may be, to each Participant's Phantom Share Investment Option sub-account to ensure that neither unintended economic benefits nor detriments are conferred on a Participant solely by reason of such "capital transaction" or "corporate reorganization."

6.6 No Transfers Among Investment Options. Each deferral of Compensation under the Plan shall remain credited to the Investment Option(s) initially selected by the Participant with respect to deferrals during that Plan Year. However, deferrals during a subsequent Plan Year may be credited to different Investment Options and/or in different proportions than deferrals during prior Plan Years.

6.7 Investment Option Allocation Election. Each Participant may elect to allocate Deferred Compensation for a particular Plan Year among the Investment Options described in

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Sections 6.2, 6.3 and/or 6.8. However, if more than one Investment Option is selected for a particular Plan Year, such allocation cannot be less than 10% of deferrals during that Plan Year.

6.8 New Investment Options; Committee Discretion Limited. The Committee may at any time in its sole discretion add an Investment Option or Options. Further, the Committee may eliminate or modify the terms of an existing Investment Option on a prospective basis, so long as the value of a Participant's Plan benefits accrued prior to such modification is not adversely affected thereby. If the Committee materially modifies the terms of an existing Investment Option, it shall promptly notify Participants regarding the details of such modification. Following receipt of such notice, each Participant shall have a period of not less than ten business days within which to elect to convert all or a portion (in 10% increments) of the affected sub-account(s) to any other Investment Option(s) then offered under the Plan, such election to take effect as of the effective date of the material modification.

ARTICLE VII PARTICIPANTS' RIGHTS UNSECURED

7.1. Unsecured Creditors. Amounts credited to a Participant's Deferred Compensation Account shall be dealt with in all respects as working capital of the Company. Therefore, the right of a Participant to receive any distribution hereunder shall be an unsecured claim against the general assets of the Company.

7.2 No Actual Investment Required. Subject to ARTICLE XVI and Section

17.1, no assets of the Company shall in any way be held in trust for, or be subject to, any claim by a Participant or his Beneficiary under the Plan. Further, neither the Company nor the Committee shall have any duty whatsoever to invest any amounts credited to any Deferred Compensation Accounts established under the Plan.

7.3 Optional Rabbi Trust(s) or Other Arrangement to Facilitate Payment. The Company's Board, upon the recommendation of the Committee, may authorize the creation of one or more Rabbi Trusts or other arrangements to facilitate payment of the obligations under the Plan, provided that such trusts and arrangements are consistent with the "unfunded" status of the Plan. A Participant shall have no right, title, or interest whatsoever in or to any investments which the Company may make to aid it in meeting its obligations hereunder. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and the Participant or any other person. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder are payable in cash from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payments of such amounts.

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ARTICLE VIII
PAYMENT OF DEFERRED COMPENSATION

8.1 Payment of Benefits. Subject to Section 8.1(a), when, and at the same time, a Participant elects to defer Compensation for any particular Plan Year, he shall concurrently elect, on the Deferred Compensation Election Form, when the portion of his Deferred Compensation Account balance attributable to such current Plan Year deferral shall be paid, which shall be as soon as practicable, and not more than 30 days after the first business day of the calendar month which follows either:

- (i) the Participant's Termination Date; or
- (ii) the date the Participant attains a selected age (maximum of age 75)

whichever the Participant shall elect on his Deferred Compensation Election Form. The date elected is hereinafter referred to as the "Benefit Payment Date". The Valuation Date to be used for such payment shall be the last business day of the calendar month that precedes the Benefit Payment Date. Notwithstanding the Participant's Investment Option(s) or the Benefit Payment Date previously elected by him, in the case of a Participant's death before his Benefit Payment Date, his Account balance under this Plan automatically will be transferred to the Corporate Bond Investment Option. Such balance with interest shall be paid to his Beneficiary or estate in a lump sum, as soon as administratively feasible after his death.

8.1(a) 365-Day Minimum Deferral Period. Notwithstanding the time for

the payment of benefits pursuant to Section 8.1, such payment will not occur prior to the expiration of a 365-day period beginning the day after the date on which an election to defer Compensation became effective as provided in the Plan, unless the Committee determines to reduce or eliminate such time period. If payment of any portion of a Participant's benefit is delayed more than 30 days following the Benefit Payment Date, the amount that is not paid on the Benefit Payment Date shall be credited with interest on the same basis as the Corporate Bond Investment Option during the period of delay.

8.2 Payment Method. Payment of benefits shall be made in a single lump-sum payment, by check, on the Benefit Payment Date.

8.3 Change of Prior Elections. Subject to the consent of the Committee, a Participant may file a request to change any prior election with respect to the timing of payment of benefits (Section 8.1). Such new election must be filed with the Committee at least 365 days prior to the date on which payment of benefits would commence under either the original or the revised election. Only one such request with respect to any prior election will be approved for any Participant.

8.4 Hardship Withdrawal. Upon application of any Participant and approval thereof by the Committee, the Participant may withdraw, by reason of hardship, part or all of his/her Deferred Compensation Account balance. "Hardship" shall mean an unanticipated emergency situation in the Participant's financial affairs beyond the Participant's control, including illness

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or an accident involving the Participant, his/her dependents or other members of his/her family, or other significant financial emergency, as determined by the Committee in its sole discretion. If a hardship withdrawal is made from a Participant's Phantom Share sub-account, the Phantom Share units in such sub-account shall be reduced by a number determined by dividing the amount withdrawn by the Market Price of Tecumseh Shares on the trading date preceding the date of withdrawal, rounded to the next-higher 1/10 unit.

ARTICLE IX VALUATION DATE

9.1 Valuation. As of each Valuation Date, the Deferred Compensation Account of each Participant shall be valued by the Committee. The current value, and the change in value from the prior valuation (whether positive or negative), shall be communicated in writing to each Participant within 45 days after each Valuation Date.

ARTICLE X ALIENATION

10.1 Anticipation, alienation, sale, transfer, assignment, pledge, levy, garnishment or other encumbrance of any payments from or benefits held under the Plan shall not be permitted or recognized, and to the extent permitted by law, no such payments or benefits shall be subject to legal process or attachment for the payment of any claim of any person entitled to receive the

ARTICLE XI
DOMESTIC RELATIONS ORDERS

11.1 Notwithstanding ARTICLE X,

- (i) To the extent required under final judgment, decree or order (including approval of a property settlement agreement) made pursuant to a state domestic relations law, any portion of a Participant's Deferred Compensation Account may be paid or set aside for payment to a spouse, former spouse, or child of the Participant. Where necessary to carry out the terms of such an order, a separate account shall be established with respect to the spouse, former spouse, or child who shall be entitled to make investment selections with respect thereto in the same manner as the Participant; any amount so set aside for a spouse, former spouse, or child shall be paid out in accordance with the Participant's prior elections under Sections 8.2 and 8.3, unless the Committee agrees to a different time and/or form of payment to such recipient(s). Any payment made to a person other than the Participant pursuant to this Section shall be reduced by tax withholding, if required by law; the fact that payment is made to a person other than the Participant may not prevent such payment from being includible in the gross income of the Participant for withholding and income tax reporting purposes.

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- (ii) The Company's liability to pay benefits to a Participant shall be reduced to the extent that amounts have been paid or set aside for payment to a spouse, former spouse, or child pursuant to subparagraph (i) of this Section. No such transfer shall be effectuated unless the Company or Committee has been provided with satisfactory evidence that the Company and the Committee are released from any further claim with respect to such amounts, in any case in which (a) the Company or Committee has been served with legal process or otherwise joined in a proceeding relating to such transfer, (b) the Participant has been notified of the pendency of such proceeding in the manner prescribed by law of the jurisdiction in which the proceeding is pending for service of process in such action or by mail from the Company or Committee to the Participant's last known mailing address, and (c) the Participant fails to obtain an order of the court in the proceeding relieving the Company or Committee from the obligation to comply with the judgment, decree, or order.
- (iii) The Company and/or Committee shall not be obligated to defend against or set aside any judgment, decree, or order described in subparagraph (i), or any legal order relating to the garnishment of a Participant's benefits, unless the full expense of such legal action is borne by the Participant. In the event that the Participant's action (or inaction) nonetheless causes the Company

or Committee to incur such expense, the amount of the expense may be charged against the Participant's Deferred Compensation Account and thereby reduce the Company's obligation to pay benefits to the Participant. In the course of any proceeding relating to divorce, separation, or child support, the Company and/or Committee shall be authorized to disclose information relating to the Participant's Account to the Participant's spouse, former spouse, or child (including the legal representatives of the spouse, former spouse, or child), or to a court.

ARTICLE XII
TAX WITHHOLDING

12.1 The Company may withhold and deduct from any amounts due to a Participant any legally required amounts necessary to satisfy Federal, state or local withholding taxes which may be due in connection with payment of benefits under the Plan.

ARTICLE XIII
PARTICIPANT CONSENT

13.1 By electing to defer Compensation pursuant to this Plan, Participants shall be deemed conclusively to have accepted and consented to all terms of the Plan and all actions or decisions made by the Company, the Company's Board or the Committee with regard to the Plan. Such terms and consent shall also apply to, and be binding upon, the Beneficiaries, distributees and personal representatives and other successors in interest of each Participant.

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ARTICLE XIV
SEVERABILITY

14.1 In the event any provision of this Plan would violate applicable law or serve to invalidate the Plan, that provision shall be deemed to be null and void, and the Plan shall be construed as if it did not contain the provision in question.

ARTICLE XV
AMENDMENT AND TERMINATION

15.1 Board May Terminate. Subject to all other provisions of this Plan, the Company's Board, may at any time terminate the Plan.

15.2 Board May Amend. Subject to all other provisions of this Plan, the

Company's Board may at any time modify or amend any or all of the provisions of the Plan.

15.3 Fiduciary Guidelines. Notwithstanding Sections 6.8, 15.1 and 15.2, the Company's Board shall not make amendments or terminate the Plan if such amendments or termination would reduce a Participant's respective balance in his Deferred Compensation Account. Further, the Company's Board shall not make amendments which would in any way eliminate the express requirement in Section 16.1 requiring the establishment and funding of a Rabbi Trust in the event of a Change of Control (as defined at ARTICLE XVI) if one has not previously been established and funded.

15.4 Termination. In the event the Company's Board terminates the Plan, the Committee shall give written notice to each Participant that his Deferred Compensation Account balance will be distributed at the time initially elected by each Participant pursuant to ARTICLE VIII. Further, pursuant to the responsibility vested with the Committee as stated in Section 17.1, the Committee will evaluate the advisability of establishing a Rabbi Trust--if one does not already exist--in light of the circumstances that caused the Company's Board to terminate the Plan.

15.5 Corporate Successors. The Plan shall not be automatically terminated by a transfer or sale of assets of the Company or by the merger or consolidation of the Company into or with any other corporation or other entity. The Plan will be continued after such sale, merger or consolidation if and to the extent that the transferee, purchaser or successor entity (hereinafter called the "Successor") agrees to continue the Plan. In the event the Plan is not assumed and continued by the Successor, then the Plan shall terminate in accordance with Section 15.4; provided that each Participant's Phantom Share sub-account shall be valued based upon Phantom Share units being valued by reference to the greater of (a) the Market Price of Tecumseh Shares on the effective date of such sale, merger or consolidation, or (b) the value per share, as of such date, of consideration received by the actual holders of Tecumseh Shares in connection with the sale, merger or consolidation in question.

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ARTICLE XVI
CHANGE OF CONTROL

16.1 Funding of Rabbi Trust. Notwithstanding ARTICLE VII, upon a "Change of Control" as defined in Section 16.2, the Company's Board is required to cause the immediate contribution of funds to a newly-created Rabbi Trust (or existing Rabbi Trust if previously established), i.e., a "Rabbi Trust" established in accordance with Rev. Proc. 92-64 (or any successor), for the benefit of each Plan Participant, as beneficiary. If the Committee determines that a Rabbi Trust is not the appropriate funding mechanism, any other funding mechanism approved by the Internal Revenue Service as a means to avoid Participants being in constructive receipt of income can be used in the

alternative. The assets of such Rabbi Trust shall at all times be subject to the claims of general creditors of the Company. Such initial contribution will be equal to the balance in each Participant's Deferred Compensation Account as of the Change of Control date. Further, if the Plan is not terminated upon such Change of Control, the Company shall continue to contribute to the Rabbi Trust, on a monthly basis, an amount of cash and/or Tecumseh Shares equal to the Compensation being deferred by each Participant after the Change of Control. Also, the Company shall continue to contribute additional cash and/or Tecumseh Shares as required to maintain the value of the assets of such Rabbi Trust at least equal to the estimated value of future benefits payable under the Plan.

16.2 Change of Control. For purposes of this Plan, a "Change of Control" shall mean one or more of the following events:

i) The acquisition, after December 31, 1998, of actual or beneficial ownership of 25% or more of the Company's Class A Common Stock or Class B Common Stock then outstanding by any person (including a group, within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "1934 Act")), other than:

- A) the trustee of any Company-sponsored employee benefit plan,
- B) the Company or any of its Subsidiaries,
- C) Kenneth G. Herrick, his descendants, or trusts for the benefit of such individuals, or
- D) trusts or foundations established by Kenneth G. Herrick or by any of the descendants or trusts mentioned in (C), above.

ii) The first purchase, after December 31, 1998, under a tender offer or exchange offer for 25% or more of the Company's Class A Common Stock or Class B Common Stock then outstanding, other than an offer by:

- A) the trustee of any Company-sponsored employee benefit plan,
- B) the Company or any of its Subsidiaries,

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C) Kenneth G. Herrick, his descendants, or trusts for the benefit of such individuals, or

D) trusts or foundations established by Kenneth G. Herrick or by any of the descendants or trusts mentioned in (C), above.

iii) The first day on which less than a majority of the total membership of the Company's Board shall be Continuing Directors;

iv) The effective date of a transaction (or a group of related transactions) in which more than 50% in fair market value of the assets of the Company are disposed of pursuant to a partial or complete liquidation, a spin-off, a sale of assets or otherwise; or

v) The date on which the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 51% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation.

16.2a Definitions. For purposes of Section 16.2, the following terms shall have the following meanings:

i) "Continuing Director" shall mean any director of the Company who either (1) is a member of the Company's Board on the date this Plan is adopted by such Board and has not terminated membership on such Board, or (2) is recommended to Company shareholders for election or appointed to the Company's Board of Directors by at least three-quarters of the Continuing Directors.

ii) "Person" shall mean a person as defined in Section 3(a)(9) of the 1934 Act, "beneficial ownership" shall be determined in accordance with Rule 13d-3 promulgated under the 1934 Act or any successor regulation, the term "group" shall mean a group as described in Rule 13d-5 promulgated under the 1934 Act or any successor regulation, and the formation of a group hereunder shall have the effect described in paragraph (b) of said Rule 13d-5 or any successor regulation. Anything hereinabove to the contrary notwithstanding, however: (a) relationships by blood, adoption or marriage between or among two or more persons shall not be deemed to constitute any of such persons a member of a group with any other such persons; (b) action taken or agreed to be taken by any person acting in his official capacity as an officer or director of the Company shall not be deemed to constitute such person a member of a group with any other person, and (c) formation of a group shall not constitute an acquisition by the group (or any member thereof) of beneficial ownership of any shares of the Company's Class B ("voting") common stock beneficially owned by any member of such group and acquired by such group member in an Excluded Acquisition.

iii) "Excluded Acquisition" means any acquisition of shares of voting common stock from the Company (whether or not for consideration) or from any person

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by operation of law (including but not limited to the laws of descent and distribution), by will, by gift or by foreclosure of a security interest given to secure a bona fide loan, or any acquisition consummated prior to December 31, 1998.

ARTICLE XVII
PLAN ADMINISTRATION

17.1 Committee. The responsibilities for general administration of the Plan as well as the decisions to establish and fund a Rabbi Trust or other funding medium shall reside with the Committee.

17.2 Determinations of Committee. Subject to the limitations of the Plan or the express powers reserved solely for the Company's Board, the Committee shall from time to time establish rules for the administration and interpretation of the Plan and the transaction of its business. The determination of the Committee shall be conclusive concerning the content, import or meaning of any and all terms in the Plan.

17.3 Majority Vote. Any act which the Plan authorizes or requires the Committee to do may be done by a majority (expressed from time to time by a vote at a meeting or, in lieu thereof, a written consent) and shall constitute the action of the Committee, and shall have the same effect for all purposes as if assented to by all members of the Committee.

17.4 Agents and Employees. The Committee may employ or retain agents and may designate one or more employees of the Company, by name or by position, to perform such clerical, accounting, and other services as the Committee may require in carrying out the provisions of the Plan.

17.5 Authorization of Committee Members. The members of the Committee may authorize one or more of their members to execute or deliver any instrument, make any payment, or perform any other act which the Plan authorizes or requires the Committee to do.

17.6 Costs. Any and all costs in administering this Plan will be paid by the Company.

17.7 Claims. Claims for benefits under the Plan shall be made in writing to the Committee. The Participant (or Beneficiary) may furnish the Committee with any written material he believes necessary to perfect his claim.

17.8 Claims Review. A person whose claim for benefits under the Plan has been denied, or his duly authorized representative, may request a review upon written application to the Committee, may review pertinent documents, and may submit issues and comments in writing. The claimant's written request for review must be submitted to the Committee within 60 days after receipt by the claimant of written notification of the denial of a claim. A decision by the Committee shall be made promptly, and not later than 60 days after the Committee's receipt of a request for review, unless special circumstances require an extension of time for proceeding, in which case a decision shall be rendered as soon as possible, but not later than 120 days after receipt of the request for review. The decision on review shall be in writing, shall include reasons for the decision, may include specific reference to the pertinent provision of the

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Plan on which the decision is based, and shall be written in a manner calculated to be understood by the claimant.

17.9 Arbitration. Unless otherwise required by law, any controversy or claim arising out of or relating to the Plan or the breach thereof, shall be

settled by binding arbitration in the City of Tecumseh in accordance with the laws of the State of Michigan by three arbitrators, one of whom shall be appointed by the Company, one by the Participant (or in the event of his prior death, his beneficiary(ies) or other distributee(s)), and the third of whom shall be appointed by the first two arbitrators. If the selected (third) arbitrator declines or is unable to serve for any reason, the appointed arbitrators shall select another arbitrator. Upon their failure to agree on another arbitrator, the jurisdiction of the Circuit Court of Lenawee County, Michigan shall be invoked to make such selection. The arbitration shall be conducted in accordance with the commercial arbitration rules of the American Arbitration Association except as provided in 17.9(a) below. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. Review by the arbitrators of any decision, action or interpretation of the Company's Board or Committee shall be limited to a determination of whether it was arbitrary and capricious or constituted an abuse of discretion, within the guidelines of *Firestone Tire & Rubber Co. v. Bruch*, 489 U.S. 101 (1989). In the event the Participant or his/her beneficiary shall retain legal counsel and/or incur other costs and expenses in connection with enforcement of any of the Participant's rights under the Plan, the Participant or beneficiary shall not be entitled to recover from the Company any attorneys fees, costs or expenses in connection with the enforcement of such rights (including enforcement of any arbitration award in court) regardless of the final outcome; except that the arbitrators in their discretion may award reasonable attorneys fees and reasonable costs to the Participant in an arbitration initiated by the Participant to enforce the Participant's rights under the Plan, provided the Participant is the prevailing party in such arbitration.

17.9(a) Any arbitration shall be conducted as follows:

(i) The arbitrators shall follow the Commercial arbitration Rules of the American Arbitration Association, except as otherwise provided herein. The arbitrators shall substantially comply with the rules of evidence; shall grant essential but limited discovery; shall provide for the exchange of witness lists and exhibit copies; and shall conduct a pretrial and consider dispositive motions. Each party shall have the right to request the arbitrators to make findings of specific factual issues.

(ii) The arbitrators shall complete their proceedings and render their decision within 40 days after submission of the dispute to them, unless both parties agree to an extension. Each party shall cooperate with the arbitrators to comply with procedural time requirements and the failure of either to do so shall entitle the arbitrators to extend the arbitration proceedings accordingly and to impose sanctions on the party responsible for the delay, payable to the other party. In the event the arbitrators do not fulfill their responsibilities on a timely basis, either party shall have the right to require a replacement and the appointment of new arbitrators.

(iii) The decision of the arbitrator shall be final and

binding upon the parties and accordingly a judgment by any Circuit Court of the State of Michigan or any other court of competent jurisdiction may be entered in accordance therewith.

(iv) Subject to the provisions of Section 17.9 relating to reasonable attorneys fees and costs in an arbitration, the costs of the arbitration shall be borne equally by the parties to such arbitration, except that each party shall bear its own legal and accounting expenses relating to its participation in the arbitration.

ARTICLE XVIII
LIMITATIONS OF ACTION

18.1 Every asserted claim to benefits or right of action by or on behalf of any Participant, past, present, or future, or any spouse, child, beneficiary or legal representative thereof, against the Company arising out of or in connection with the Plan shall, irrespective of the place where such right of action may arise or be asserted, cease and be barred by the expiration of the earliest of: (i) one year from the date of the alleged act or omission in respect of which such right of action first arises in whole or in part, (ii) one year after the Participant's termination of services as a Director for the Company, or (iii) six months after notice is given to or on behalf of the Participant of the amount payable to or in respect of the Participant under the Plan.

WITNESS execution of this plan document on behalf of the Company by its duly authorized officer.

TECUMSEH PRODUCTS COMPANY

Dated November 25, 1998

By _____
Its Vice President and
Chief Financial Officer

TECUMSEH PRODUCTS COMPANY

VOLUNTARY DEFERRED COMPENSATION PLAN

(adopted November 25, 1998)

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VOLUNTARY DEFERRED COMPENSATION PLAN

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TECUMSEH PRODUCTS COMPANY
VOLUNTARY DEFERRED COMPENSATION PLAN

ARTICLE I
PLAN PURPOSES

1.1 The purpose of this Plan is to provide eligible officers and Key Employees of the Employer with the opportunity to defer compensation. The Plan is also intended to establish a method for attracting and retaining persons whose abilities, experience and judgement can contribute to the long-term strategic objectives of the Employer.

1.2 The Company intends that the Plan be an unfunded, non-qualified deferred compensation plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees of the Employer, and that payments under the Plan shall be, when paid or otherwise made available to Participants, deductible by the Employer pursuant to Sections 162 and 404(a)(5) of the Internal Revenue Code of 1986, as amended (the "IRC").

ARTICLE II
DEFINITIONS

As used in this Plan, the following terms shall have the meanings hereinafter set forth:

2.1 "Base Salary" means the annual salary paid to officers and Key Employees of the Employer at regular intervals during the calendar year.

2.2 "Beneficiary" means any person(s) or legal entity(ies) designated by the Participant or otherwise determined in accordance with Section 5.4.

2.3 "Board" means the Board of Directors of the Company.

2.4 "Committee" means the Governance and Executive Compensation Committee of the Board, or such other committee as the Board may subsequently appoint to administer the Plan.

2.5 "Company" means Tecumseh Products Company, a Michigan corporation, and its successors and assigns.

2.6 "Compensation" means Base Salary and other qualifying remuneration paid by the Employer, as the Committee shall determine.

2.7 "Deferral Period" means the total period of time, expressed in Plan Years, for which the Participant has elected to defer Compensation. Such Deferral Period shall exclude the period of time beyond the Benefit Commencement Date (as provided in ARTICLE VIII).

2.8 "Deferred Compensation" means Compensation deferred pursuant to the Plan.

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2.9 "Deferred Compensation Account" means the individual account maintained under the Plan for a Participant as determined under ARTICLE VI.

2.10 "Deferred Compensation Election Form" means an approved election form that each Participant must execute in accordance with ARTICLE IV in order to participate in the Plan, examples of which are attached hereto as EXHIBITS 1 and 1.1.

2.11 "Director" means a member of the Board.

2.12 "Eligible Participant" means any officer or Key Employee of the Employer designated by the Committee as eligible to participate in the Plan. Where the context so requires, this term shall also include a former officer or Key Employee for whom the Committee maintains a Deferred Compensation Account under the Plan.

2.13 "Employer" means the Company, any of its present subsidiary corporations, any corporation which becomes a controlled subsidiary of the Company provided the Committee determines to extend coverage thereto, and/or any successor(s) to such corporation(s). The Committee shall be deemed to have extended coverage to a subsidiary if an employee of such subsidiary is designated by the Committee as eligible to participate in the Plan.

2.14 "Key Employee" means any executive employee of the Employer that the Committee in its sole discretion decides is sufficiently important to the ongoing business objectives of the Employer.

2.15 "Market Price" of a Tecumseh Share on any given day means that day's closing price per share on the NASDAQ National Market or, if the Tecumseh Shares are not traded on a particular day, the closing NASDAQ price per share on the closest preceding date on which Tecumseh Shares were traded.

2.16 "Participant" for any Plan Year means an Eligible Participant who has elected to defer Compensation in accordance with the procedures set forth in ARTICLE IV and for whom the Committee has established and maintains a separate Deferred Compensation Account.

2.17 "Phantom Share" means a hypothetical or imaginary Tecumseh Share without any of the rights attached to an actual Tecumseh Share, but whose economic value for purposes of the Plan is the same as that of an actual Tecumseh Share.

2.18 "Plan" means the Tecumseh Products Company Voluntary Deferred Compensation Plan as embodied herein and as amended from time to time by the Board.

2.19 "Plan Year" means the 12-month calendar year beginning January 1 and ending December 31, or such shorter period, as applicable, in the year the Plan is terminated.

2.20 "Rabbi Trust" means an irrevocable trust, containing certain key provisions, which the Internal Revenue Service would require in order to conclude that contributions made thereto by an employer, to provide for the payment of non-qualified deferred compensation benefits to

employees, will not be taxed to employees at the time contributions are made, but instead, at the time the benefits are received or otherwise made available to the employee.

2.21 "Tecumseh Share" means a share of the Company's Class A Common Stock (\$1.00 par value per share).

2.22 "Valuation Date" means the last business day of either a calendar year or calendar quarter, as the Committee will determine from time to time, the date on which a Participant's Deferred Compensation Account is valued for purposes of a hardship distribution pursuant to Section 8.8, and any other date specified by the Committee for valuing a Participant's Deferred Compensation Account.

The masculine pronoun shall be deemed to include the feminine, and the singular number shall be deemed to include the plural, unless a different meaning is plainly required by the context.

ARTICLE III ELIGIBILITY

3.1 Prior to the end of November in each Plan Year, the Committee shall designate the officers and Key Employees who shall be eligible to defer Compensation under the Plan during the following Plan Year. Also, the Committee may from time to time designate newly-hired officers and Key Employees as eligible to defer Compensation under the Plan. The Committee shall promptly notify each eligible officer and Key Employee of his eligibility to participate in the Plan if selected by the Committee. The Committee has total discretion to determine who is eligible to participate on a Plan Year by Plan Year basis.

3.2 Directors who are not also employees of the Employer are not eligible to participate in the Plan.

ARTICLE IV PARTICIPATION

4.1 Election to Participate. Subject to Section 4.2, in order to participate in the Plan, in respect of Compensation for a particular Plan Year, an Eligible Participant must make a valid election by executing and filing with the Committee, before the commencement of such Plan Year, a Deferred Compensation Election Form, an example of which is attached hereto as EXHIBIT 1. Such election shall be in addition to the election provided under Section 6.10.

4.2 New Participant. Notwithstanding Section 4.1, a newly-hired officer or Key Employee who becomes an Eligible Participant after the first day of the current Plan Year, may elect to participate in the Plan, with respect to future Compensation for such Plan Year, by filing a Deferred Compensation Election Form within 15 days after his initial date of designation or employment, whichever occurs later.

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4.3 Election not Revocable. Except as provided in Section 8.5, a Deferred Compensation Election Form, once executed and filed with the Committee, cannot be revoked for such current Plan Year's Compensation elected to be deferred pursuant to such form.

4.4 Vesting. A Participant will be vested in his entire Deferred Compensation Account balance at all times and will not be subject to forfeiture for any reason.

4.5 New Elections Permitted for Each Year. A Participant is not required to defer Compensation for any subsequent Plan Year by reason of having elected to defer Compensation for a current or prior Plan Year. Compensation payable in future Plan Years can only be deferred by filing a Deferred Compensation Election Form for the appropriate Plan Year.

4.6 Deferrals in 5% Increments. The minimum amount which may be

deferred by an Eligible Participant for any Plan Year is 5% of Compensation. Deferrals in excess of the minimum amount shall be in further 5% increments of Compensation. Elections to convert MIP Phantom Shares pursuant to Section 6.10 are not subject to this Section 4.6.

ARTICLE V
GENERAL PROVISIONS

5.1 No Right to Payment Except as Provided in Plan. No Participant, or other Eligible Participant or Beneficiary, shall have any right to any payment or benefit hereunder except to the extent provided in the Plan.

5.2 Employment Rights. The employment rights of any Participant or other Eligible Participant shall not be enlarged, guaranteed or affected by reason of the provisions of the Plan.

5.3 Recipient Under a Disability. If the Committee determines that any person to whom a payment is due hereunder is a minor, or is adjudicated incompetent by reason of physical or mental disability, the Committee shall have the power to cause the payments becoming due to such person to be made to the legal guardian for the benefit of the minor or incompetent, without responsibility of the Employer or the Committee to see to the application of such payment, unless prior to such payment claim is made therefor by a duly appointed legal representative. Payments made pursuant to such power shall operate as a complete discharge of the Employer, the Board and the Committee.

5.4 Designation of Beneficiary. Each Participant may designate any person(s) or legal entity(ies), including his estate or a trust, as his Beneficiary under the Plan by filing a written beneficiary designation, in prescribed form, with the Committee. A Participant may at any time revoke or change his designation of Beneficiary by filing a new beneficiary designation with the Committee. If no person or legal entity shall be designated by a Participant as his Beneficiary, or if no designated Beneficiary survives him, his estate shall be his Beneficiary.

5.5 Elections. Any election made or notice given by a Participant pursuant to the Plan shall be in writing to the Committee, or to such representative as may be designated by the

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Committee for such purpose. Notice shall be deemed to have been made or given on the date received by the Committee or its designated representative.

5.6 Controlling Law. The validity of the Plan or any of its provisions shall be determined under, and it shall be construed and administered according to, the laws of the State of Michigan, without regard to principles of conflicts of law.

ARTICLE VI
DEFERRED COMPENSATION ACCOUNTS

6.1 Accounts. Upon receipt of a Participant's valid Deferred Compensation Election Form, the Committee shall establish, as a bookkeeping entry only, a Deferred Compensation Account for such Participant. The Committee shall thereafter record in each Participant's Deferred Compensation Account for a particular Plan Year, the amount(s) which he elected to defer which otherwise would have been paid to the Participant during the subsequent Plan Year or Plan Years, as the case may be. Such amount(s) shall be credited (as of the date such amount(s) would otherwise have been paid to the Participant) to one or more of the Investment Option sub-accounts which the Committee shall make available under the Plan. The initial Investment Options are the Phantom Share Investment Option and the Corporate Bond Investment Option.

6.2 Phantom Share Investment Option. Participant elections for this Option shall be reflected in a bookkeeping sub-account, the value of which shall be based upon the performance of Tecumseh Shares. Amounts deferred will be credited to such sub-account as units, each reflecting one Tecumseh Share.

Fractional units will also be credited to such sub-account, if applicable. The number of credited units will be determined by dividing the dollar amount of Compensation deferred by the Market Price of a Tecumseh Share on the date such amount would otherwise have been paid to the Participant. Dividends paid on Tecumseh Shares shall be reflected in such sub-account by the crediting of additional units in such sub-account equal to the value of the dividend and based upon the Market Price of a Tecumseh Share on the date such dividend is paid.

6.3 Corporate Bond Investment Option. Participant elections for this Option shall be reflected in a bookkeeping sub-account, the value of which shall be based upon quarterly crediting of earnings based on the current yield of the DJ 20 Bond Index. Amounts deferred will be credited to such sub-account on the date such amount would otherwise have been paid to the Participant. All amounts reflected in this sub-account shall be credited with earnings, compounded quarterly, from the date credited, based on a rate of return equal to the current yield of the DJ 20 Bond Index as of the last business day of the preceding quarter.

6.4 Adjustments to Accounts. The value of a Participant's Deferred Compensation Account shall be periodically adjusted for any payments made to such Participant in the form of benefits, hardship distributions, or otherwise. Where adjustment is made to the Phantom Stock sub-account, it shall be reflected in reduction of units determined by the amount paid, divided by the Market Price of a Tecumseh Share on the date of payment.

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6.5 Dilutive and Anti-dilutive Transactions Affecting Phantom Shares. The Committee shall make appropriate adjustments to a Participant's Phantom Share Investment Option sub-account where a "capital transaction" or "corporate reorganization" has the effect of changing the economic equivalent number of Phantom Shares units that a Participant has been credited under this Plan. The Committee shall make an adjustment, either positive or negative as the case may be, to each Participant's Phantom Share Investment Option sub-account to ensure that neither unintended economic benefits nor detriments are conferred on a Participant solely by reason of such "capital transaction" or "corporate reorganization."

6.6 No Transfers Among Investment Options. Each deferral of Compensation under the Plan shall remain credited to the Investment Option(s) initially selected by the Participant with respect to deferrals during that Plan Year. However, deferrals during a subsequent Plan Year may be credited to different Investment Options and/or in different proportions than deferrals during prior Plan Years.

6.7 Investment Option Allocation Election. Each Participant may elect to allocate Deferred Compensation for a particular Plan Year among the Investment Options described in Sections 6.2, 6.3 and/or 6.9. However, if more than one Investment Option is selected for a particular Plan Year, such allocation cannot be less than 10% of deferrals during that Plan Year.

6.8 Effects On Other Plans. If, because of a Participant's deferral of Compensation under this Plan, a Participant's retirement benefits in any pension or retirement plan of the Employer (either qualified under IRC Section 401, or not so qualified) are reduced, the Employer shall provide a corresponding supplemental benefit under the Tecumseh Products Company Supplemental Retirement Plan. However, this Section shall not apply to any qualified defined contribution plan, such as a 401(k) plan.

6.9 New Investment Options; Committee Discretion Limited. The Committee may at any time in its sole discretion add an Investment Option or Options. Further, the Committee may eliminate or modify the terms of an existing Investment Option on a prospective basis, so long as the value of a Participant's Plan benefits accrued prior to such modification is not adversely affected thereby. If the Committee materially modifies the terms of an existing Investment Option, it shall promptly notify Participants regarding the details of such modification. Following receipt of such notice, each Participant shall have a period of not less than ten business days within which to elect to convert all or a portion (in 10% increments) of the affected sub-account(s) to any other Investment Option(s) then offered under the Plan, such election to take effect as of the effective date of the material modification.

6.10 Election to Convert MIP Phantom Shares. An Eligible Participant (including a former officer or Key Employee who has a Deferred Compensation Account under the Plan) may, upon written election, choose to convert all or part of his/her account under the Tecumseh Products Company Management Incentive Plan (the "MIP"), attributable to phantom share allocations ("MIP Phantom Shares") first becoming vested at the end of a Plan Year, into the Phantom Share Investment Option, the Corporate Bond Investment Option, any other Investment Option that the Committee has made available, or a combination of the foregoing, under this Plan. Such conversion privilege is irrevocable (subject to the Participant's right to elect a

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different Investment Option under Section 6.9) and is subject to all provisions of this Plan. Also, any such written election, as well as any elections under Sections 8.1 - 8.3 with respect to the time, method of payment and payment period for the portion of the Participant's Deferred Compensation Account attributable to such conversion, must be made --

- i) at least 365 calendar days prior to the date the Participant becomes vested in the MIP Phantom Shares, and
- ii) on a Deferred Compensation Election Form, an example of which is attached as EXHIBIT 1.1.

However, the above 365-day restriction will not apply in the situation where --

- a Participant has made an election with respect to MIP Phantom Shares at least 365 days before he would become vested in those Shares under Article VI(a) of the MIP, and
- he subsequently becomes vested in those Shares under any other provision of the MIP before the end of the Plan Year and within 365 days of the date of the original election.

In that situation, those MIP Phantom Shares which had been subject to the earlier election, and whose vesting was thereafter accelerated, shall be covered by the earlier election, even though they became vested within 365 days of the election.

The conversion shall be effective as of the date the Participant becomes vested in the applicable MIP Phantom Shares. The conversion value of the MIP Phantom Shares used to calculate the number of Phantom Share units to be allocated to the Participant's Phantom Share Investment Option or the dollar amount to be allocated to the Participant's Corporate Bond Investment Option or to any other Investment Option that the Committee has made available shall generally be the value of the applicable MIP Phantom Shares as of the date the Participant became vested in such MIP Phantom Shares as determined under the MIP. However, the number of units allocated to a Participant's Phantom Share sub-account under this Plan as the result of a conversion pursuant to this Section 6.10 shall not be less than $A \times B$, where "A" represents the total number of MIP Phantom Shares being converted and "B" represents the percentage of such converted MIP Phantom Shares being allocated to the Participant's Phantom Share sub-account under this Plan.

ARTICLE VII PARTICIPANTS' RIGHTS UNSECURED

7.1 Unsecured Creditors. Amounts credited to a Participant's Deferred Compensation Account shall be dealt with in all respects as working capital of the Employer. Therefore, the right of a Participant to receive any distribution hereunder shall be an unsecured claim against the general assets of the Employer.

7.2 No Actual Investment Required. Subject to ARTICLE XVI and Section 17.1, no assets of the Employer shall in any way be held in trust for, or be subject to, any claim by a Participant or his Beneficiary under the Plan. Further, neither the Employer nor the Committee

shall have any duty whatsoever to invest any amounts credited to any Deferred Compensation Accounts established under the Plan.

7.3 Optional Rabbi Trust(s) or Other Arrangement to Facilitate Payment. The Board, upon the recommendation of the Committee, may authorize the creation of one or more Rabbi Trusts or other arrangements to facilitate payment of the obligations under the Plan, provided that such trusts and arrangements are consistent with the "unfunded" status of the Plan. A Participant shall have no right, title, or interest whatsoever in or to any investments which the Company may make to aid it in meeting its obligations hereunder. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and the Participant or any other person. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder are payable in cash from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payments of such amounts.

ARTICLE VIII
PAYMENT OF DEFERRED COMPENSATION

8.1 Commencement of Benefits. Subject to Section 8.1(a), when, and at the same time, a Participant elects to defer Compensation for any particular Plan Year, he shall concurrently elect, on the Deferred Compensation Election Form, when the portion of his Deferred Compensation Account balance attributable to such current Plan Year deferral shall be paid, which shall be as soon as practicable, and not more than 30 days after the first business day of the calendar month which follows:

- (i) the date such Participant attains a selected age (maximum of age 70); or
- (ii) retirement when eligible for commencement of early, normal or late retirement benefits under a qualified defined benefit plan sponsored by the Employer

whichever the Participant shall elect on his Deferred Compensation Election Form. The date elected is hereinafter referred to as the "Benefit Payment Date". The Valuation Date to be used for such payment shall be the last business day of the calendar month that precedes the Benefit Payment Date.

8.1(a) 365-Day Minimum Deferral Period. Notwithstanding the time for the commencement of benefits pursuant to Section 8.1, commencement of benefits will not occur prior to the expiration of a 365-day period beginning the day after the date on which an election to defer Compensation became effective as provided in the Plan, unless the Committee determines to reduce or eliminate such time period.

8.2 Payment Method Election. At the time the Deferred Compensation Election Form is filed pursuant to ARTICLE IV, Participants must also elect the method of receiving payment of their Deferred Compensation Account balance upon the first business day of the Plan Year

following the expiration of the Deferral Period so elected. Each Participant shall elect to receive payment of his Deferred Compensation Account either in:

- (i) one lump-sum on the Benefit Commencement Date;

- (ii) annual installments, with accrued earnings or losses, determined in accordance with the Plan provisions governing the Investment Option(s) selected, over a specified period (elected in accordance with Section 8.3), beginning on the Benefit Commencement Date; or
- (iii) a lump-sum/annual installment combination where a lump sum equal to 25%, 50% or 75% of the Participant's Deferred Compensation Account as specified by the Participant in the Deferred Compensation Election Form is paid to the Participant on his Benefit Commencement Date and where the remaining Deferred Compensation Account balance is paid in annual installments over a specified period (elected in accordance with Section 8.3), beginning on the first anniversary of the Benefit Commencement Date.

8.2(a) Installment Payout Formula. If a Participant selects payment option (i) of Section 8.2, the annual installment amount for a particular Plan Year will be computed as follows:

$$\$W = (\$X / [Y - Z])$$

Where W = Installment amount received by Participant in a particular Plan Year.

Where X = Participant's Deferred Compensation Account balance at the end of the prior Plan Year.

Where Y = Number of years originally elected by Participant for the payment period.

Where Z = Number of years in the elected payment period already elapsed.

8.2(b) Lump-Sum/Installment Combination Payout Formula. If a Participant selects payment option (ii) of Section 8.2, the portion of the Deferred Compensation Account balance remaining after the payment of the lump sum on the Benefit Commencement Date to be paid out in any given Plan Year in annual installments will be considered a separate account amount which is computed in the same manner as described in Section 8.2(a).

8.3 Payment Period Election. At the time an Eligible Participant elects on the Deferred Compensation Election Form to be a Participant for any Plan Year, he shall concurrently elect the payment method (lump sum and/or number of years, up to a maximum of 15) over which his Deferred Compensation Account shall be paid out to him from the Plan upon the expiration of the Deferral Period. If a Participant has elected different pay-out methods or periods on his/her Deferred Compensation Election Forms for different years, then the

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Committee shall establish sub-accounts to keep track of the portions of such Account that are subject to those different methods or periods.

8.3(a) Automatic Lump Sum Payment.

- (i) Notwithstanding the Participant's Investment Option(s) or the Payment Method and Payment Period Elections previously made by him pursuant to Sections 8.2 and 8.3, in the case of a Participant's separation from Employer service for any reason other than death or retirement when eligible for commencement of pension benefits from a qualified pension or retirement plan sponsored by the Employer, his Account balance under this Plan automatically will be transferred to the Corporate Bond Investment Option. Such balance with interest shall be paid to him in a lump sum, as soon as administratively feasible thereafter, unless the Committee directs a different payment

method and/or payment period.

- (ii) Notwithstanding the Participant's Investment Option(s) or the Payment Method and Payment Period Elections previously made by him pursuant to Sections 8.2 and 8.3, in the case of a Participant's death, whether before or after his Benefit Commencement Date, his Account balance under this Plan automatically will be transferred to the Corporate Bond Investment Option. Such balance with interest shall be paid to his Beneficiary or estate in a lump sum, as soon as administratively feasible after his death, unless the Committee directs a different payment method and/or payment period.

8.4 Payment Denomination. All payments to Participants or others will be paid solely in cash.

8.5 Change of Prior Elections. Subject to the consent of the Committee, an Eligible Participant may file a request to change any prior election with respect to the timing of commencement of benefits (Section 8.1), payment method (Section 8.2) and/or payment period (Section 8.3). Such new election must be filed with the Committee at least 365 days prior to the date on which payment of benefits would commence under either the original or the revised election. Only one such request with respect to any prior election will be approved for any Participant.

8.6 Hardship Withdrawal. Upon application of any Participant and approval thereof by the Committee, the Participant may withdraw, by reason of hardship, part or all of his/her Deferred Compensation Account balance. "Hardship" shall mean an unanticipated emergency situation in the Participant's financial affairs beyond the Participant's control, including illness or an accident involving the Participant, his/her dependents or other members of his/her family, or other significant financial emergency, as determined by the Committee in its sole discretion. If a hardship withdrawal is made from a Participant's Phantom Share sub-account, the Phantom Share units in such sub-account shall be reduced by a number determined by dividing the amount withdrawn by the Market Price of Tecumseh Shares on the trading date preceding the date of withdrawal, rounded to the next-higher one-tenth (1/10) unit.

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ARTICLE IX
VALUATION DATE

9.1 Valuation. As of each Valuation Date, the Deferred Compensation Account of each Participant shall be valued by the Committee. The current value, and the change in value from the prior valuation (whether positive or negative), shall be communicated in writing to each Participant within 45 days after each Valuation Date.

ARTICLE X
ALIENATION

10.1 Anticipation, alienation, sale, transfer, assignment, pledge, levy, garnishment or other encumbrance of any payments from or benefits held under the Plan shall not be permitted or recognized, and to the extent permitted by law, no such payments or benefits shall be subject to legal process or attachment for the payment of any claim of any person entitled to receive the same.

ARTICLE XI
DOMESTIC RELATIONS ORDERS

11.1 Notwithstanding ARTICLE X,

- (i) To the extent required under final judgment, decree or order (including approval of a property settlement agreement) made pursuant to a state domestic relations law, any portion of a Participant's Deferred Compensation Account may be paid or set aside for payment to a spouse, former spouse, or child of the

Participant. Where necessary to carry out the terms of such an order, a separate account shall be established with respect to the spouse, former spouse, or child who shall be entitled to make investment selections with respect thereto in the same manner as the Participant; any amount so set aside for a spouse, former spouse, or child shall be paid out in accordance with the Participant's prior elections under Sections 8.2 and 8.3, unless the Committee agrees to a different time and/or form of payment to such recipient(s). Any payment made to a person other than the Participant pursuant to this Section shall be reduced by tax withholding, if required by law; the fact that payment is made to a person other than the Participant may not prevent such payment from being includible in the gross income of the Participant for withholding and income tax reporting purposes.

- (ii) The Employer's liability to pay benefits to a Participant shall be reduced to the extent that amounts have been paid or set aside for payment to a spouse, former spouse, or child pursuant to subparagraph (i) of this Section. No such transfer shall be effectuated unless the Employer or Committee has been provided with satisfactory evidence that the Employer and the Committee are released from any further claim with respect to such amounts, in any case in which (a) the Employer or Committee has been served with legal process or otherwise joined in a

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proceeding relating to such transfer, (b) the Participant has been notified of the pendency of such proceeding in the manner prescribed by law of the jurisdiction in which the proceeding is pending for service of process in such action or by mail from the Employer or Committee to the Participant's last known mailing address, and (c) the Participant fails to obtain an order of the court in the proceeding relieving the Employer or Committee from the obligation to comply with the judgment, decree, or order.

- (iii) The Employer and Committee shall not be obligated to defend against or set aside any judgment, decree, or order described in subparagraph (i), or any legal order relating to the garnishment of a Participant's benefits, unless the full expense of such legal action is borne by the Participant. In the event that the Participant's action (or inaction) nonetheless causes the Employer or Committee to incur such expense, the amount of the expense may be charged against the Participant's Deferred Compensation Account and thereby reduce the Employer's obligation to pay benefits to the Participant. In the course of any proceeding relating to divorce, separation, or child support, the Employer and Committee shall be authorized to disclose information relating to the Participant's Account to the Participant's spouse, former spouse, or child (including the legal representatives of the spouse, former spouse, or child), or to a court.

ARTICLE XII TAX WITHHOLDING

12.1 Withholding. Subject to Sections 11.1, 12.2 and 12.3, the Employer shall deduct from all payments under this Plan each Participant's share of any taxes required to be withheld by any Federal, state or local government. The Participants and their Beneficiaries, distributees and personal representatives will bear any and all Federal, foreign, state, local income taxes or any other taxes imposed on Participants or amounts paid under this Plan.

12.2 FICA Taxes. Pursuant to IRC Section 3121(v) and regulations thereunder, Compensation deferred pursuant to this Plan is subject to employment taxes under the Federal Insurance Contributions Act ("FICA") at the time of deferral rather than at the time of distribution to the Participant. Accordingly, at the time of deferral, each Participant will be required to pay to the Employer, either by payroll deduction or check, his share of FICA

(including hospital insurance [Medicare]) taxes due and payable; except to the extent the Participant has already reached the maximum compensation levels subject to Old-Age, Survivors, and Disability Insurance ("OASDI") tax at the time Compensation is deferred under the Plan.

12.3 Taxes Due at Deferral Date Other than FICA Taxes. If any of the taxes referred to in Section 12.1 are due at the time of deferral, instead of at the time of payout, each Participant will be required to pay to the Employer, by payroll deduction or check, the Participant's share of any such taxes due and payable.

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ARTICLE XIII
PARTICIPANT CONSENT

13.1 By electing to defer Compensation pursuant to this Plan, Participants shall be deemed conclusively to have accepted and consented to all terms of the Plan and all actions or decisions made by the Company, the Board or the Committee with regard to the Plan. Such terms and consent shall also apply to, and be binding upon, the Beneficiaries, distributees and personal representatives and other successors in interest of each Participant.

ARTICLE XIV
SEVERABILITY

14.1 In the event any provision of this Plan would violate applicable law or serve to invalidate the Plan, that provision shall be deemed to be null and void, and the Plan shall be construed as if it did not contain the provision in question.

ARTICLE XV
AMENDMENT AND TERMINATION

15.1 Board May Terminate. Subject to all other provisions of this Plan, the Board, may at any time terminate the Plan.

15.2 Board May Amend. Subject to all other provisions of this Plan, the Board may at any time modify or amend any or all of the provisions of the Plan.

15.3 Fiduciary Guidelines. Notwithstanding Sections 6.9, 15.1 and 15.2, the Board shall not make amendments or terminate the Plan if such amendments or termination would reduce a Participant's respective balance in his Deferred Compensation Account. Further, the Board shall not make amendments which would in any way eliminate the express requirement in Section 16.1 requiring the establishment and funding of a Rabbi Trust in the event of a Change of Control (as defined at ARTICLE XVI) if one has not previously been established and funded.

15.4 Termination. In the event the Board terminates the Plan, the Committee shall give written notice to each Participant that his Deferred Compensation Account balance will be distributed in the manner initially elected by each Participant pursuant to ARTICLE VIII. Further, pursuant to the responsibility vested with the Committee as stated in Section 17.1, the Committee will evaluate the advisability of establishing a Rabbi Trust--if one does not already exist--in light of the circumstances that caused the Board to terminate the Plan.

15.5 Corporate Successors. The Plan shall not be automatically terminated by a transfer or sale of assets of the Company or by the merger or consolidation of the Company into or with any other corporation or other entity. The Plan will be continued after such sale, merger or consolidation if and to the extent that the transferee, purchaser or successor entity (hereinafter called the "Successor") agrees to continue the Plan. In the event the Plan is not assumed and continued by the Successor, then the Plan shall terminate in accordance with Section 15.4;

provided that each Participant's Phantom Share sub-account shall be valued based upon Phantom Share units being valued by reference to the greater of (a) the Market Price of Tecumseh Shares on the effective date of such sale, merger or consolidation, or (b) the value per share, as of such date, of consideration received by the actual holders of Tecumseh Shares in connection with the sale, merger or consolidation in question.

ARTICLE XVI
CHANGE OF CONTROL

16.1 Funding of Rabbi Trust. Notwithstanding ARTICLE VII, upon a "Change of Control" as defined in Section 16.2, the Board is required to cause the immediate contribution of funds to a newly-created Rabbi Trust (or existing Rabbi Trust if previously established), i.e., a "Rabbi Trust" established in accordance with Rev. Proc. 92-64 (or any successor), for the benefit of each Plan Participant, as beneficiary. If the Committee determines that a Rabbi Trust is not the appropriate funding mechanism, any other funding mechanism approved by the Internal Revenue Service as a means to avoid Plan Participants being in constructive receipt of income can be used in the alternative. The assets of such Rabbi Trust shall at all times be subject to the claims of general creditors of the Employer. Such initial contribution will be equal to the balance in each Participant's Deferred Compensation Account as of the Change of Control date. Further, if the Plan is not terminated upon such Change of Control, the Employer shall continue to contribute to the Rabbi Trust, on a monthly basis, an amount of cash and/or Tecumseh Shares equal to the Compensation being deferred by each Participant after the Change of Control. Also, the Employer shall continue to contribute additional cash and/or Tecumseh Shares as required to maintain the value of the assets of such Rabbi Trust at least equal to the estimated value of future benefits payable under the Plan.

16.2 Change of Control. For purposes of this Plan, a "Change of Control" shall mean one or more of the following events:

i) The acquisition, after December 31, 1998, of actual or beneficial ownership of 25% or more of the Company's Class A Common Stock or Class B Common Stock then outstanding by any person (including a group, within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "1934 Act")), other than:

- A) the trustee of any Company-sponsored employee benefit plan,
- B) the Company or any of its subsidiaries,
- C) Kenneth G. Herrick, his descendants, or trusts for the benefit of such individuals, or
- D) trusts or foundations established by Kenneth G. Herrick or by any of the descendants or trusts mentioned in (C), above.

ii) The first purchase, after December 31, 1998, under a tender offer or exchange offer for 25% or more of the Company's Class A Common Stock or Class B Common Stock then outstanding, other than an offer by:

- A) the trustee of any Company-sponsored employee benefit plan,
- B) the Company or any of its subsidiaries,
- C) Kenneth G. Herrick, his descendants, or trusts for the benefit of such individuals, or
- D) trusts or foundations established by Kenneth G. Herrick or by any of the descendants or trusts mentioned in (C), above.

iii) The first day on which less than a majority of the total membership of the Board shall be Continuing Directors;

iv) The effective date of a transaction (or a group of related transactions) in which more than 50% in fair market value of the assets of the Company, or of the particular subsidiary for which a given Participant's services are principally performed, are disposed of pursuant to a partial or complete liquidation, a spin-off, a sale of assets or otherwise. In the event this provision applies to a particular subsidiary, only those Participants whose services are principally performed for that subsidiary shall be deemed to be affected by such Change in Control; or

v) The date on which the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 51% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation.

16.2a Definitions. For purposes of Section 16.2, the following terms shall have the following meanings:

i) "Continuing Director" shall mean any director of the Company who either (1) is a member of the Board on the date this Plan is adopted by the Board and has not terminated membership on the Board, or (2) is recommended to Company shareholders for election or appointed to the Company's Board of Directors by at least three-quarters of the Continuing Directors.

ii) "Person" shall mean a person as defined in Section 3(a) (9) of the 1934 Act, "beneficial ownership" shall be determined in accordance with Rule 13d-3 promulgated under the 1934 Act or any successor regulation, the term "group" shall mean a group as described in Rule 13d-5 promulgated under the 1934 Act or any successor regulation, and the formation of a group hereunder shall have the effect described in paragraph (b) of

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said Rule 13d-5 or any successor regulation. Anything hereinabove to the contrary notwithstanding, however: (a) relationships by blood, adoption or marriage between or among two or more persons shall not be deemed to constitute any of such persons a member of a group with any other such persons; (b) action taken or agreed to be taken by any person acting in his official capacity as an officer or director of the Company shall not be deemed to constitute such person a member of a group with any other person, and (c) formation of a group shall not constitute an acquisition by the group (or any member thereof) of beneficial ownership of any shares of the Company's Class B ("voting") common stock beneficially owned by any member of such group and acquired by such group member in an Excluded Acquisition.

iii) "Excluded Acquisition" means any acquisition of shares of voting common stock from the Company (whether or not for consideration) or from any person by operation of law (including but not limited to the laws of descent and distribution), by will, by gift or by foreclosure of a security interest given to secure a bona fide loan, or any acquisition consummated prior to December 31, 1998.

ARTICLE XVII PLAN ADMINISTRATION

17.1 Committee. The responsibilities for general administration of the Plan as well as the decisions to establish and fund a Rabbi Trust or other funding medium shall reside with the Committee.

17.2 Determinations of Committee. Subject to the limitations of the Plan or the express powers reserved solely for the Board, the Committee shall from time to time establish rules for the administration and interpretation of the Plan and the transaction of its business. The determination of the Committee shall be conclusive concerning the content, import or meaning of any and all terms in the Plan.

17.3 Majority Vote. Any act which the Plan authorizes or requires the Committee to do may be done by a majority (expressed from time to time by a vote at a meeting or, in lieu thereof, a written consent) and shall constitute the action of the Committee, and shall have the same effect for all purposes as if assented to by all members of the Committee.

17.4 Agents and Employees. The Committee may employ or retain agents and may designate one or more employees of the Company, by name or by position, to perform such clerical, accounting, and other services as the Committee may require in carrying out the provisions of the Plan.

17.5 Authorization of Committee Members. The members of the Committee may authorize one or more of their members to execute or deliver any instrument, make any payment, or perform any other act which the Plan authorizes or requires the Committee to do.

17.6 Costs. Any and all costs in administering this Plan will be paid by the Employer.

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17.7 Claims. Claims for benefits under the Plan shall be made in writing to the Committee. The Participant (or Beneficiary) may furnish the Committee with any written material he believes necessary to perfect his claim.

17.8 Claims Review. A person whose claim for benefits under the Plan has been denied, or his duly authorized representative, may request a review upon written application to the Committee, may review pertinent documents, and may submit issues and comments in writing. The claimant's written request for review must be submitted to the Committee within 60 days after receipt by the claimant of written notification of the denial of a claim. A decision by the Committee shall be made promptly, and not later than 60 days after the Committee's receipt of a request for review, unless special circumstances require an extension of time for proceeding, in which case a decision shall be rendered as soon as possible, but not later than 120 days after receipt of the request for review. The decision on review shall be in writing, shall include reasons for the decision, may include specific reference to the pertinent provision of the Plan on which the decision is based, and shall be written in a manner calculated to be understood by the claimant.

17.9 Arbitration. Unless otherwise required by law, any controversy or claim arising out of or relating to the Plan or the breach thereof, shall be settled by binding arbitration in the City of Tecumseh in accordance with the laws of the State of Michigan by three arbitrators, one of whom shall be appointed by the Company, one by the Participant (or in the event of his prior death, his beneficiary(ies) or other distributee(s)), and the third of whom shall be appointed by the first two arbitrators. If the selected (third) arbitrator declines or is unable to serve for any reason, the appointed arbitrators shall select another arbitrator. Upon their failure to agree on another arbitrator, the jurisdiction of the Circuit Court of Lenawee County, Michigan shall be invoked to make such selection. The arbitration shall be conducted in accordance with the commercial arbitration rules of the American Arbitration Association except as provided in 17.9(a) below. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. Review by the arbitrators of any decision, action or interpretation of the Board or Committee shall be limited to a determination of whether it was arbitrary and capricious or constituted an abuse of discretion, within the guidelines of *Firestone Tire & Rubber Co. v. Bruch*, 489 U.S. 101 (1989). In the event the Participant or his/her beneficiary shall retain legal counsel and/or incur other costs and expenses in connection with enforcement of any of the Participant's rights under the Plan, the Participant or beneficiary shall not be entitled to recover from the Company any attorneys fees, costs or expenses in connection with the enforcement of such rights (including enforcement of any arbitration award in court) regardless of the final outcome; except that the arbitrators in their discretion may award reasonable attorneys

fees and reasonable costs to the Participant in an arbitration initiated by the Participant to enforce the Participant's rights under the Plan, provided the Participant is the prevailing party in such arbitration.

17.9(a) Any arbitration shall be conducted as follows:

(i) The arbitrators shall follow the Commercial arbitration Rules of the American Arbitration Association, except as otherwise provided herein. The arbitrators shall substantially comply with the rules of evidence; shall grant essential but limited

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discovery; shall provide for the exchange of witness lists and exhibit copies; and shall conduct a pretrial and consider dispositive motions. Each party shall have the right to request the arbitrators to make findings of specific factual issues.

(ii) The arbitrators shall complete their proceedings and render their decision within 40 days after submission of the dispute to them, unless both parties agree to an extension. Each party shall cooperate with the arbitrators to comply with procedural time requirements and the failure of either to do so shall entitle the arbitrators to extend the arbitration proceedings accordingly and to impose sanctions on the party responsible for the delay, payable to the other party. In the event the arbitrators do not fulfill their responsibilities on a timely basis, either party shall have the right to require a replacement and the appointment of new arbitrators.

(iii) The decision of the arbitrator shall be final and binding upon the parties and accordingly a judgment by any Circuit Court of the State of Michigan or any other court of competent jurisdiction may be entered in accordance therewith.

(iv) Subject to the provisions of Section 17.9 relating to reasonable attorneys fees and costs in an arbitration, the costs of the arbitration shall be borne equally by the parties to such arbitration, except that each party shall bear its own legal and accounting expenses relating to its participation in the arbitration.

ARTICLE XVIII
LIMITATIONS OF ACTION

18.1 Every asserted claim to benefits or right of action by or on behalf of any Participant, past, present, or future, or any spouse, child, beneficiary or legal representative thereof, against the Company arising out of or in connection with the Plan shall, irrespective of the place where such right of action may arise or be asserted, cease and be barred by the expiration of the earliest of: (i) one year from the date of the alleged act or omission in respect of which such right of action first arises in whole or in part, (ii) one year after the Participant's termination of employment, or (iii) six months after notice is given to or on behalf of the Participant of the amount payable to or in respect of the Participant under the Plan.

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WITNESS execution of this plan document on behalf of the Company by its duly authorized officer.

TECUMSEH PRODUCTS COMPANY

Dated: November 25, 1998

By _____

FINANCIAL SUMMARY

(Dollars in millions except per share data)

<TABLE>

<CAPTION>

	1998 (a)	1997
<S>	<C>	<C>
Net sales	\$1,750.2	\$1,728.3
Net income	74.2	100.5
% of net sales	4.2%	5.8%
Capital expenditures	64.4	90.6
Total assets	1,556.2	1,537.4
Average number of shares outstanding (in thousands)	21,366	21,879
Per share of common stock:		
Basic and diluted earnings	\$3.47	\$4.59
Cash dividends declared	1.20	1.20
Book value	47.69	45.80
Average number of employees	17,500	17,400

</TABLE>

(a) The 1998 results include a \$45 million nonrecurring charge for asset impairment. This charge was equivalent to \$28.8 million or \$1.35 per share after taxes.

Tecumseh Products Company and Subsidiaries

BUSINESS SEGMENT DATA

(Dollars In Millions)

INDUSTRY SEGMENT INFORMATION

<TABLE>

<CAPTION>

1998	Compressor Products	Engine & Power Train Products	Pump Products	Other (1)	Non-recurring Charges (2)	Total Consolidated
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sales - external customers	\$ 1,048.1	\$ 592.2	\$ 109.9	\$ --	\$ --	\$ 1,750.2
Operating income	82.2	57.2	11.5	(9.3)	(45.0)	96.6
Net interest income (expense)	10.8	(0.3)	1.9	8.5	--	20.9
Income before taxes	93.0	56.9	13.4	(0.8)	(45.0)	117.5
Assets	800.3	284.6	99.8	371.5	--	1,556.2
Depreciation & amortization	56.0	16.8	1.2	0.6	--	74.6
Non-cash asset impairment	(45.0)	--	--	--	--	(45.0)
Capital expenditures	45.8	16.1	1.5	1.0	--	64.4
1997						
Sales - external customers	\$ 1,050.1	\$ 576.8	\$ 101.4	\$ --	\$ --	\$ 1,728.3
Operating income	82.7	61.9	11.1	(10.5)	--	145.2
Net interest income (expense)	6.3	(0.4)	2.0	7.7	--	15.6
Income before taxes	89.0	61.5	13.1	(2.8)	--	160.8
Assets	847.4	295.1	92.9	302.0	--	1,537.4
Depreciation & amortization	54.5	15.3	1.3	--	--	71.1

Capital expenditures	68.0	21.0	1.6	--	--	90.6

1996						
Sales - external customers	\$ 1,126.5	\$ 564.1	\$ 94.0	\$ --	\$ --	\$ 1,784.6
Operating income	102.7	64.5	11.5	(10.4)	(5.1)	163.2
Net interest income (expense)	5.2	(0.6)	2.1	7.1	--	13.8
Income before taxes	107.9	63.9	13.6	(3.3)	(5.1)	177.0
Assets	830.5	298.2	88.3	255.6	--	1,472.6
Depreciation & amortization	49.3	14.2	1.1	--	--	64.6
Capital expenditures	77.9	35.3	2.0	--	--	115.2

</TABLE>

(1) The "Other" column includes corporate related items, consolidating reclassifications and eliminations, and income and expense items not allocated to reportable segments.

(2) The 1998 results include a \$45 million nonrecurring charge for asset impairment. This charge was equivalent to \$28.8 million or \$1.35 per share after taxes. The 1996 results include a \$5.1 million nonrecurring charge for environmental and litigation costs. This charge was equivalent to \$3.3 million or \$.15 per share after taxes

Geographic Segment Information

<TABLE>

<CAPTION>

	External Customer Sales			Net Long-Lived Assets		
	1998	1997	1996	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>
United States	\$ 948.5	\$ 935.0	\$ 975.5	\$336.3	\$398.2	\$388.8
Brazil	121.4	140.7	164.1	82.5	94.4	92.3
Canada	56.8	51.6	54.7	0.7	0.7	1.0
France	51.3	42.5	46.3	40.2	37.7	33.5
India	43.6	11.9	0.7	38.1	27.8	--
Italy	78.5	51.2	50.3	11.1	10.9	13.5
All Other	450.1	495.4	493.0	--	--	--
Totals	\$1,750.2	\$1,728.3	\$1,784.6	\$508.9	\$569.7	\$529.1

</TABLE>

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

Tecumseh Products Company is a full-line, independent global manufacturer of hermetic compressors for air conditioning and refrigeration products, gasoline engines and power train components for lawn and garden applications, and pumps. The Company's products are sold in over 100 countries around the world.

Products are grouped into three principal industry segments: Compressor Products, Engine and Power Train Products, and Pump Products.

Sales for 1998 were \$1,750.2 million, a 1% increase over 1997. Net income for 1998 amounted to \$74.2 million or \$3.47 per share. The 1998 results include a nonrecurring charge for asset impairment (\$28.8 million or \$1.35 per share). Excluding the nonrecurring charge, 1998 earnings were \$103 million or \$4.82 per share, as compared with 1997 net income of \$100.5 million or \$4.59 per share. The principal reason for the improvement in earnings, exclusive of the nonrecurring charge, was higher interest income, which grew from \$21.9 million in 1997 to \$27.8 million in 1998. This growth was the result of high interest rates earned on the Company's cash balances in Brazil.

NONRECURRING CHARGE

During 1998, the Company made substantial progress in the development of its scroll compressor product line incorporating several design modifications of earlier scroll concepts. The new product has been tested favorably in the Company's laboratories and will soon be offered for sale in limited quantities and limited configurations. However, based on expected manufacturing costs and market conditions, and due to an anticipated lengthy introduction period involving limited production, it is estimated that future cash flows from this product line will not be sufficient to cover the carrying amount of the

Company's buildings, tooling, machinery and equipment currently dedicated for scroll production. Accordingly, under applicable accounting standards, the Company has charged fourth quarter 1998 earnings with a provision of \$45 million (\$28.8 million or \$1.35 per share after tax) to reduce the carrying amount of those assets to estimated fair market value.

COMPRESSOR PRODUCTS

1998 VS. 1997

The Company's worldwide Compressor Products sales were \$1,048.1 million in 1998 as compared to \$1,050.1 million in 1997. Sales increased in North America and Europe reflecting strong economies and good demand for the Company's commercial refrigeration products. Sales growth of the Company's new operations in India offset reduced exports to Southeast Asia caused by economic difficulties in that area of the world. Sales in Brazil declined as the result of deepening economic problems.

Compressor Products margins in 1998 were 7.8% compared to margins of 7.9% in 1997. A downward trend in selling prices continued, but was offset by lower commodity costs and aggressive cost savings programs.

1997 VS. 1996

Worldwide Compressor Products sales were \$1,050.1 million in 1997, down 7% from \$1,126.5 million in 1996. In North American markets, improved sales of the Brazilian-built TP compressor for household refrigeration were more than offset by a weather-related decline in sales of compressors for room air conditioning

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applications, and to a lesser extent weaker sales of unitary air conditioning compressors. U.S. export sales were flat with the prior year. Sales within Brazil declined as monetary policy was tightened in an attempt to defend the Brazilian currency.

Tecumseh Europe improved results in 1997. A weaker French Franc coupled with extensive cost reduction efforts helped increase our competitive position. French Franc sales increased contributing to higher margins.

Compressor Products operating margins for 1997 declined to 7.9% as compared to 9.1% in 1996, largely because of lower Brazilian margins (9.9% in 1997 versus 14.8% in 1996).

ENGINE AND POWER TRAIN PRODUCTS

1998 VS. 1997

Engine and Power Train Products sales for 1998 grew 3% to \$592.2 million compared to 1997 sales of \$576.8 million. Unit sales of engines for snow thrower applications fell nearly 45% reflecting light snowfall in key urban areas of the country. However, strong demand for walk behind lawn mower engines and engines for utility applications resulted in total unit sales of engines increasing 14% for the year.

1998 operating income of the Engine and Power Train segment was \$57.2 million, down from \$61.9 million earned in 1997. The positive impact of higher overall sales volume was more than offset by the decline in relatively more profitable snow thrower engines.

1997 VS. 1996

Engine and Power Train Products sales were \$576.8 million, up 2% compared to 1996. A weather related decline in snow thrower engines was offset by improved sales of engines for lawn and garden and utility applications.

Operating margins declined from 11.4% in 1996 to 10.7% in 1997 because of less favorable product mix and start-up costs at the new engine production facility in Georgia.

PUMP PRODUCTS

Pump Products sales grew 8% in 1998 to a total of \$109.9 million after having enjoyed the same rate of growth in 1997. Increased penetration in water gardening markets has been largely responsible for this growth. Pump products margins were 10.5% in 1998 compared to 10.9% in 1997.

FINANCIAL POSITION

The Company continued to maintain a strong and liquid financial position. During 1998, working capital increased by \$51.1 million to \$605.9 million. The ratio of current assets to current liabilities increased to 3.2. Capital expenditures for 1998 amounted to \$64.4 million and included construction of new facilities in India and additional capacity in Brazil. Capital expenditures for 1999 are expected to be at approximately the same level as in 1998.

During 1997 and 1998 the Company repurchased 1 million shares of its Class

A common stock in open market transactions for the aggregate amount of \$50.9 million. The repurchase of up to an additional 1 million shares of Class A common stock has been authorized through December 31, 1999.

Working capital requirements and planned capital investment and stock repurchase costs for 1999 are expected to be financed primarily through

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internally available funds. The Company may also utilize long-term financing arrangements in connection with state investment incentives, and may from time to time utilize short-term borrowings to hedge currency risk and to finance foreign working capital requirements. The Company maintains a \$100 million revolving credit facility that is available for general corporate purposes.

DEVALUATION OF BRAZILIAN CURRENCY

During early 1999, the Brazilian currency, the Real, was allowed by the Brazilian government to freely rise and fall according to market conditions. This resulted in a rapid and substantial reduction in market value to the Real, which had been trading at approximately .83 U.S. dollars (83 cents) for each Real at December 31, 1998.

At December 31, 1998, the carrying amount of the Company's investment in Tecumseh do Brasil was approximately \$145 million. Of that amount, approximately \$29 million were denominated in U.S. dollars or otherwise hedged. Because of the recent devaluation, it is expected that significant translation adjustments will be recorded in 1999. Under applicable accounting standards, translation adjustments relating to the Company's investment in Tecumseh do Brasil are reflected in stockholders' equity in the periods in which the adjustments arise. Gains and losses on foreign currency transactions and balances denominated in foreign currencies are recognized in current income.

It is not possible to accurately predict the ultimate effect that the recent devaluation will have on the Brazilian economy and on the Company's sales and earnings.

ENVIRONMENTAL

The U.S. Environmental Protection Agency (EPA) is in the process of final rule development of Phase II emission standards for utility engines which include the two- and four-cycle engines produced by the Company. The Company already produces competitively priced engines that comply with current EPA and California Air Resources Board (CARB) Standards. The Phase II standards will be finalized in early 1999 for the four-cycle line and in mid-2000 for the two-cycle line. Phase-in of the rules will take place between the 2001 and 2006 model years.

The state of California will begin to enforce the CARB Tier II Emission Standards effective January 1, 2000, at which time all rotary mower and lightweight vertical shaft utility engines will require overhead valve technology in the state of California.

It is not currently possible to determine the related costs of compliance, nor the impact on the competitive position of the Company.

The Company is subject to various laws relating to the protection of the environment and is in various stages of investigation or remediation for sites where contamination has been alleged. (See Note 8 to the financial statements.) Liabilities relating to probable remediation activities are recorded when the costs of such activities can be reasonably estimated based on the facts and circumstances currently known. Difficulties exist estimating the future timing and ultimate costs to be incurred due to uncertainties regarding the status of laws, regulations, technology and information available. At December 31, 1998 and 1997 the Company had accrued \$43.3 million and \$38.4 million, respectively for environmental remediation.

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YEAR 2000 READINESS DISCLOSURE

The Company has reviewed its manufacturing, financial, and administrative information systems and has determined that it needs to replace or modify several of its software systems to make them Year 2000 compliant. In addition, the Company believes that a limited number of non-information technology systems, such as manufacturing machinery, equipment, and test equipment with date-sensitive software and embedded microprocessors, may be affected. The Company has developed a plan for the timely completion of modifications related to the Year 2000. Principal phases of the plan are: inventorying affected

technology and assessing the impact of the Year 2000 issue; developing solution plans; modification or replacement; testing; and developing contingency plans. Critical systems in North America are substantially Year 2000 compliant. The Company's objective is to have all its critical systems Year 2000 compliant and to have developed contingency plans by mid 1999. This objective allows time for further testing and verification of these systems as necessary and the conversion of less critical systems. The Company is also attempting to gain assurances from its significant suppliers and customers that they are addressing this issue to ensure there will be no major interruptions.

The costs of making the required systems changes are estimated to be approximately \$9 million. These costs are generally not incremental to existing information technology budgets but rather relate to internal resources that were re-assigned and implementation time tables that were accelerated. As of December 31, 1998 the Company had spent approximately two-thirds of the total projected cost to be compliant.

If the modifications of the Company's systems, and those of its customers and suppliers, are not successfully completed on a timely basis, the Year 2000 issue could have a materially adverse impact on the operations of the Company. It is the Company's belief that the greatest potential risk from the Year 2000 could be its possible inability to meet commitment dates on delivery of product. Since it is not possible to anticipate all possible future outcomes, especially when third parties are involved, the amount of any potential liability or lost revenue cannot be reasonably estimated at this time.

The Company is developing contingency plans for critical applications. These contingency plans involve, among other actions, manual work-arounds, increasing inventories, and adjusting staffing strategies.

EURO CONVERSION

On January 1, 1999, certain member nations of the European Economic and Monetary Union ("EMU") adopted a common currency, the Euro. For a three-year transition period, both the Euro and individual participants' currencies will remain in circulation. After January 1, 2002, the Euro will be the sole legal tender for EMU countries. The adoption of the Euro will affect some of the Company's financial systems and business applications as the commerce of these nations will be transacted both in the Euro and the existing national currency.

The Company is currently addressing Euro-related issues and their impact on information systems, currency exchange rate risk, taxation, contracts, competition, and pricing. Action plans currently being implemented are expected to result in compliance with all laws and regulations; however, there can be no certainty that such plans will be successfully implemented or that external factors will not have an adverse effect on the Company's operations. Any costs associated with the adoption of the Euro will be expensed as incurred. The Company does not expect these costs to be material to its results of operations, financial condition, or liquidity.

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UNCERTAINTIES RELATING TO FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the securities laws. In addition, forward-looking statements may be made orally in the future by or on behalf of the Company.

Forward-looking statements involve risks and uncertainties, including, but not limited to, i) changes in business conditions and the economy in general in both foreign and domestic markets; ii) weather conditions affecting demand for air conditioners, lawn and garden products and snow throwers; iii) financial market changes, including interest rates and foreign exchange rates; iv) economic trend factors such as housing starts; v) governmental regulations; vi) availability of materials; vii) actions of competitors; viii) the ultimate cost of environmental remediation; ix) the degree to which the Company and its principal customers and suppliers are successful in remediating Year 2000 problems; x) the extent of any business disruption resulting from the conversion to the Euro; and xi) the Company's ability to profitably develop, manufacture and sell both new and existing products.

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TECUMSEH PRODUCTS COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(Dollars in millions except per share data)

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1998 (a)	1997	1996 (b)
<S>	<C>	<C>	<C>
NET SALES	\$1,750.2	\$1,728.3	\$1,784.6
Cost of sales and operating expenses	1,492.8	1,478.7	1,517.8
Selling and administrative expenses	115.8	104.4	98.5
Nonrecurring charges	45.0	--	5.1
OPERATING INCOME	96.6	145.2	163.2
Interest expense	(6.9)	(6.3)	(6.4)
Interest income and other, net	27.8	21.9	20.2
INCOME BEFORE TAXES ON INCOME	117.5	160.8	177.0
Taxes on income	43.3	60.3	64.4
NET INCOME	\$74.2	\$100.5	\$112.6
BASIC AND DILUTED EARNINGS PER SHARE	\$3.47	\$4.59	\$5.15

</TABLE>

(a) The 1998 results include a \$45 million nonrecurring charge for asset impairment. This charge was equivalent to \$1.35 per share after taxes.

(b) The 1996 results include a \$5.1 million nonrecurring charge for environmental and litigation costs. This charge was equivalent to \$.15 per share after taxes.

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in millions)

	COMMON STOCK				ACCUMULATED OTHER COMPREHENSIVE INCOME/ (LOSS)	TOTAL STOCKHOLDERS' EQUITY
	CLASS A \$1 PAR VALUE	CLASS B \$1 PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, DECEMBER 31, 1995	\$16.4	\$5.5	\$29.9	\$808.0	\$17.3	\$877.1
COMPREHENSIVE INCOME:						
Net income				112.6		112.6
Translation adjustments					(5.4)	(5.4)
TOTAL COMPREHENSIVE INCOME						107.2
Cash dividends				(36.8)		(36.8)
BALANCE, DECEMBER 31, 1996	16.4	5.5	29.9	883.8	11.9	947.5
COMPREHENSIVE INCOME:						
Net income				100.5		100.5
Translation adjustments					(19.6)	(19.6)
TOTAL COMPREHENSIVE INCOME						80.9
Cash dividends				(26.3)		(26.3)
Stock repurchase			(1.9)			(1.9)
BALANCE, DECEMBER 31, 1997	16.4	5.5	28.0	958.0	(7.7)	1,000.2
COMPREHENSIVE INCOME:						
Net income				74.2		74.2

Translation adjustments					(4.1)	(4.1)
TOTAL COMPREHENSIVE INCOME						70.1
Cash dividends				(25.6)		(25.6)
Stock repurchase	(1.0)		(28.0)	(20.0)		(49.0)
Balance, December 31, 1998	\$15.4	\$5.5	\$0.0	\$986.6	(\$11.8)	\$995.7

</TABLE>

The accompanying notes are an integral part of these statements.

10
TECUMSEH PRODUCTS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

<TABLE>
<CAPTION>

ASSETS	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 277.7	\$ 304.1
Accounts receivable, trade, less allowance for doubtful accounts of \$6.1 million in 1998 and \$5.7 million in 1997	256.7	207.7
Inventories	275.7	259.4
Deferred income taxes	42.2	38.2
Other current assets	25.5	8.7
TOTAL CURRENT ASSETS	877.8	818.1
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land and land improvements	20.0	18.3
Buildings	177.3	174.8
Machinery and equipment	876.1	845.8
	1,073.4	1,038.9
Less, accumulated depreciation	564.5	469.2
PROPERTY, PLANT AND EQUIPMENT, net	508.9	569.7
EXCESS OF COST OVER ACQUIRED NET ASSETS, less accumulated amortization of \$20.0 million in 1998 and \$18.2 million in 1997	57.0	56.7
DEFERRED INCOME TAXES	24.6	10.8
PREPAID PENSION EXPENSE	76.5	58.4
OTHER ASSETS	11.4	23.7
TOTAL ASSETS	\$ 1,556.2	\$ 1,537.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable, trade	\$ 121.5	\$ 110.6
Income taxes payable	9.7	9.3
Short-term borrowings	10.6	29.0
Accrued liabilities:		
Employee compensation	36.4	30.9
Product warranty and self-insured risks	34.6	32.9
Other	59.1	50.6
TOTAL CURRENT LIABILITIES	271.9	263.3
LONG-TERM DEBT	17.2	17.5
NON-PENSION POSTRETIREMENT BENEFITS	187.6	182.7
PRODUCT WARRANTY AND SELF-INSURED RISKS	32.5	28.9
ACCRUAL FOR ENVIRONMENTAL MATTERS	36.7	31.6
PENSION LIABILITIES	14.6	13.2
TOTAL LIABILITIES	560.5	537.2
STOCKHOLDERS' EQUITY:		
Class A common stock, \$1 par value; authorized 75,000,000 shares; issued 15,410,438 and 16,370,438 shares in 1998 and 1997, respectively	15.4	16.4
Class B common stock, \$1 par value; authorized 25,000,000 shares; issued 5,470,146 shares in 1998 and 1997	5.5	5.5

Capital in excess of par value	--	28.0
Retained earnings	986.6	958.0
Accumulated Other Comprehensive Income (Loss)	(11.8)	(7.7)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	995.7	1,000.2
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,556.2	\$ 1,537.4
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED CASH FLOWS
(Dollars in millions)

<TABLE>
<CAPTION>

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 74.2	\$ 100.5	\$ 112.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	74.6	71.1	64.6
Impaired asset write down	45.0	--	--
Accounts receivable	(50.0)	(6.3)	17.5
Inventories	(15.1)	11.9	(16.3)
Payables and accrued expenses	23.4	8.4	(15.0)
Prepaid pension expense	(18.1)	(11.8)	(9.1)
Other	(3.4)	12.9	11.8
	-----	-----	-----
Cash Provided By Operations	130.6	186.7	166.1
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(64.4)	(90.6)	(115.2)
Business acquisition, net of cash acquired	--	(46.9)	--
	-----	-----	-----
Cash Used In Investing Activities	(64.4)	(137.5)	(115.2)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	(25.6)	(26.3)	(36.8)
Proceeds from borrowings	5.4	25.3	7.1
Repayments of borrowings	(23.9)	(11.8)	(1.1)
Repurchases of common stock	(49.0)	(1.9)	--
	-----	-----	-----
Cash Used In Financing Activities	(93.1)	(14.7)	(30.8)
	-----	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH	0.5	(8.1)	(4.0)
	-----	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(26.4)	26.4	16.1
CASH AND CASH EQUIVALENTS:			
Beginning of period	304.1	277.7	261.6
	-----	-----	-----
End of period	\$ 277.7	\$ 304.1	\$ 277.7
	=====	=====	=====

</TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES

BUSINESS DESCRIPTION -- Tecumseh Products Company (the "Company") is a full-line, independent global manufacturer of hermetic compressors for air

conditioning and refrigeration products, gasoline engines and power train components for lawn and garden applications, and pumps. The Company's products are sold in over 100 countries around the world.

PRINCIPLES OF CONSOLIDATION -- The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's investments in unconsolidated affiliates are generally accounted for on the equity basis. All significant intercompany transactions and balances have been eliminated.

CASH EQUIVALENTS -- Cash equivalents consist of short-term investments that are readily convertible into cash.

INVENTORIES -- Inventories are valued at the lower of cost or market, generally on the first-in, first-out basis.

PROPERTY, PLANT AND EQUIPMENT -- Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to expense as incurred. For financial statement purposes, depreciation is determined using the straight-line method at rates based upon the estimated useful lives of the assets.

EXCESS OF COST OVER ACQUIRED NET ASSETS -- Assets and liabilities related to business combinations accounted for as purchases are recorded at fair value. The excess of cost over the net tangible assets acquired is being amortized on a straight-line basis over forty years.

DERIVATIVE FINANCIAL INSTRUMENTS - Derivative financial instruments are occasionally utilized by the Company to manage risk exposure to movements in foreign exchange rates. The Company, from time to time, enters into forward exchange contracts to obtain foreign currencies at specified rates based on expected future cash flows for each currency. The premium or discount on the contracts is amortized over the life of the contract, and the unrealized gain or loss on the balance sheet date is recognized in net income. The Company does not hold derivative financial instruments for trading purposes.

PRODUCT WARRANTY -- Provision is made for the estimated cost of maintaining product warranties at the time the product is sold.

SELF-INSURED RISKS -- Provision is made for the estimated costs of known and anticipated claims under the deductible portions of the Company's liability and workers' compensation insurance policies. In addition, provision is made for the estimated cost of postemployment benefits at employment separation.

ENVIRONMENTAL EXPENDITURES -- Expenditures for environmental safekeeping are expensed or capitalized as appropriate. Costs associated with remediation activities are expensed. Liabilities relating to probable remedial activities are recorded when the costs of such activities can be reasonably estimated.

COMPREHENSIVE INCOME - Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," which establishes new rules for the reporting and display of comprehensive income plus all other changes in net assets from non-owner sources. The adoption of this pronouncement had no impact on the Company's net income or stockholders' equity. Accumulated other comprehensive income or loss shown in the consolidated statement of shareholders' equity at December 31, 1998, 1997, and 1996 is solely comprised of accumulated foreign currency translation adjustments, net of tax effects.

EARNINGS PER SHARE -- Basic and diluted earnings per share are equivalent. Earnings per share are computed based on the weighted average number of common shares outstanding for the periods reported. The weighted average number of common shares used in the computations were 21,365,958 in 1998, 21,878,995 in 1997, and 21,880,584 in 1996.

RESEARCH, DEVELOPMENT AND TESTING EXPENSES -- Company sponsored research, development, and testing expenses related to present and future products are expensed as incurred and were \$32.4, \$32.6, and \$30.4 million in 1998, 1997 and 1996, respectively.

ESTIMATES -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the

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reported amounts during the reporting period and at the date of the financial statements. Actual results could differ from those estimates.

RECLASSIFICATIONS -- Certain amounts included in the prior years' financial statements have been reclassified to conform to the 1998 presentation.

NOTE 2. FOREIGN CURRENCY TRANSLATION

Prior to July 1, 1997 the functional currency of the Company's Brazilian subsidiary was the U.S. dollar since it operated in a highly inflationary economy. Accordingly, inventory, plant and equipment and related income statement items were translated at historical exchange rates while other assets and liabilities were translated at current exchange rates. The resulting translation gain (loss) included in net earnings was \$(.4) and \$2.5 million in 1997 and 1996, respectively.

Effective July 1, 1997 the functional currency of the Company's Brazilian subsidiary was changed to the local Brazilian currency, as Brazil was then no longer considered a highly inflationary economy. At December 31, 1997 all of the Company's foreign subsidiaries use the local currency of the country of operation as the functional currency. Assets and liabilities are translated into U.S. dollars at year-end exchange rates while revenues and expenses are translated at average monthly exchange rates. The resulting translation adjustments are recorded as a component of stockholders' equity:

<TABLE>

<CAPTION>

(Dollars in millions)	1998	1997
	-----	-----
<S>	<C>	<C>
Balance at January 1	\$ (7.7)	\$11.9
Effect of balance sheet translations:		
Amount	(6.8)	(28.4)
Tax effect	2.7	8.8
	-----	-----
Balance at December 31	\$ (11.8)	\$ (7.7)
	=====	=====

</TABLE>

During early 1999, the value of the Brazilian Real was allowed to float according to market conditions. This resulted in a rapid and substantial reduction in market value of the Real from its trading value of .83 U.S. dollars (83 cents) at December 31, 1998.

At December 31, 1998, the carrying amount of the Company's investment in Tecumseh do Brasil was approximately \$145 million. Of that amount, approximately \$29 million were denominated in U.S. dollars or otherwise hedged. Because of the recent devaluation, it is expected that significant translation adjustments will be recorded in 1999. Under applicable accounting standards, translation adjustments relating to the Company's investment in Tecumseh do Brasil are reflected in other comprehensive income as shown in the Consolidated Statements of Stockholders' Equity in the periods in which the adjustments arise. Gains and losses on foreign currency transactions and balances denominated in foreign currencies are recognized in current income.

It is not possible to accurately predict the ultimate effect that the recent devaluation will have on the Brazilian economy and on the Company's sales and earnings.

NOTE 3. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company has defined benefit retirement plans that cover substantially all domestic employees. Plans covering salaried employees generally provide pension benefits that are based on average earnings and years of credited service. Plans covering hourly employees generally provide pension benefits of stated amounts for each year of service. The Company sponsors a retiree health care benefit plan, including retiree life insurance, for eligible salaried employees and their eligible dependents. The Company also sponsors at certain divisions retiree health care benefit plans for hourly retirees and their eligible dependents. The retiree health care plans are unfunded, provide for coordination of benefits with Medicare and any other insurance plan covering a participating retiree or dependent, and have lifetime maximum benefit restrictions. Some of the retiree health care plans are contributory, with some retiree contributions adjusted annually. The Company has reserved the right to interpret, change or eliminate these health care benefit plans.

The following tables provide a reconciliation of the changes in the plans' benefit obligations, fair value of assets and funded status for 1998 and 1997:

-21-

14

<TABLE>

<CAPTION>

(Dollars in millions)	Pension		Other	
	-----	-----	-----	-----
	1998	1997	1998	1997
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Reconciliation of benefit obligation:				
Benefit obligation at				

January 1	\$280.9	\$272.9	\$139.5	\$135.7
Service cost	6.6	6.8	4.6	4.5
Interest cost	17.4	17.6	9.0	8.6
Actuarial (gain) loss	(11.0)	(.6)	(3.8)	(4.6)
Benefit payments	(16.4)	(15.4)	(5.3)	(4.7)

Benefit obligation at December 31	\$277.5	\$280.9	\$144.0	\$139.5
--------------------------------------	---------	---------	---------	---------

Reconciliation of fair value of plan assets:

Fair value at January 1	\$502.4	\$456.0
Actual return on plan assets	86.2	61.5
Employer contributions	.2	.3
Benefit payments	(16.4)	(15.4)

Fair value at December 31	\$572.4	\$502.4
------------------------------	---------	---------

Funded status:

Funded status at December 31	\$294.9	\$221.5	\$ (144.0)	\$ (139.5)
Unrecognized transition (asset) obligation	(10.7)	(12.8)	--	--
Unrecognized prior service cost	8.6	9.5	(12.2)	(13.6)
Unrecognized (gain) loss	(216.3)	(159.8)	(37.7)	(36.0)
Prepaid (accrued) benefits	\$76.5	\$58.4	\$ (193.9)	\$ (189.1)

</TABLE>

The following tables provide the components of net periodic benefit cost for 1998, 1997 and 1996:

<TABLE>

<CAPTION>

(Dollars in millions)

<S>

Pension Benefits:

	1998	1997	1996
Service cost	\$ 6.6	\$ 6.8	\$ 6.5
Interest cost	17.4	17.6	16.9
Expected return on plan assets	(34.8)	(30.9)	(28.9)
Net amortization	(7.3)	(4.6)	(3.5)
Net periodic benefit cost	\$ (18.1)	\$ (11.1)	\$ (9.0)

Other Benefits:

Service cost	\$4.6	\$4.5	\$4.2
Interest cost	9.0	8.6	8.3
Amortization of net (gain) loss	(3.8)	(3.7)	(3.2)
Net periodic benefit cost	\$9.8	\$9.4	\$9.3

</TABLE>

Assumptions used in measuring the benefit obligations were:

<TABLE>

<CAPTION>

	Pension		Other	
	1998	1997	1998	1997
Discount rate	6.5%	6.5%	6.5%	6.5%

<S>

</TABLE>

15

<TABLE>

Long-term rate of:

<S> <C> <C> <C> <C>

Compensation increases	5.0%	5.0%	N/A	N/A
Return on plan assets	7.5%	7.5%	N/A	N/A

For measurement purposes a 7.25% annual rate of increase in the cost of covered health care benefits was assumed for 1998. The rate was assumed to decrease each year to a rate of 5% for 2004 and remain at that rate thereafter.

The health care cost trend rate assumption has a significant effect on the amounts reported. A 1% change in assumed health care cost trend rates would have the following effects:

	+1%	-1%
	-----	-----
Accumulated postretirement benefit obligation	\$18.4	\$(15.2)
Net postretirement benefit cost	2.4	(1.9)

The Company's foreign subsidiaries provide for defined benefits that are generally based on earnings at retirement date and years of credited service. The combined expense for these unfunded plans was \$2.9, \$2.7 and \$2.1 million in 1998, 1997 and 1996, respectively. The net liability recorded in the consolidated balance sheet was \$14.6 and \$13.2 million for 1998 and 1997, respectively.

The Company has defined contribution retirement plans that cover substantially all domestic employees. The combined expense for these plans was \$3.1, \$3.4 and \$3.5 million in 1998, 1997 and 1996, respectively.

NOTE 4. INCOME TAXES

Consolidated income before taxes consists of the following:

<TABLE>			
<CAPTION>			
(Dollars in millions)	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
United States	\$65.9	\$124.6	\$131.4
Foreign	51.6	36.2	45.6
	-----	-----	-----
	\$117.5	\$160.8	\$177.0
	=====	=====	=====

</TABLE>

Provision for income taxes consists of the following:

<TABLE>			
<CAPTION>			
(Dollars in millions)	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Current:			
U.S. federal	\$ 35.6	\$ 37.5	\$ 37.4
State and local	5.0	3.8	6.2
Foreign income and withholding taxes	16.0	9.0	14.0
	-----	-----	-----
	\$ 56.6	50.3	57.6
	-----	-----	-----
Deferred:			
U.S. federal	(\$ 13.2)	8.6	8.5
Foreign	(0.1)	1.4	(1.7)
	-----	-----	-----
	(13.3)	10.0	6.8
	-----	-----	-----
Provision for income taxes	\$ 43.3	\$ 60.3	\$ 64.4
	=====	=====	=====
Income taxes paid	\$ 52.7	\$ 39.6	\$ 61.6
	=====	=====	=====

</TABLE>

A reconciliation between the actual income tax expense provided and the income tax expense computed by applying the statutory federal income tax rate of 35% to income before tax is as follows:

-23-

<TABLE>			
<CAPTION>			
(Dollars in millions)	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>

Income taxes at U.S. statutory rate	\$41.1	\$56.3	\$62.0
Excess of foreign taxes over the U.S. statutory rate	.1	2.2	0.9
State and local income taxes	3.2	2.4	4.0
Tax benefits from Foreign Sales Corporation	(1.0)	(1.0)	(1.6)
Other	(.1)	0.4	(0.9)
	-----	-----	-----
	\$43.3	\$60.3	\$64.4
	=====	=====	=====

</TABLE>

Significant components of the Company's deferred tax assets and liabilities as of December 31 were as follows:

<TABLE>		
<CAPTION>		
(Dollars in millions)	1998	1997
	----	----
<S>	<C>	<C>
Deferred tax assets:		
Non-pension postretirement benefits	\$71.9	\$70.0
Product warranty and self-insured risks	25.2	22.9
Net operating loss carryforwards	2.6	3.0
Provision for environmental matters	16.0	14.2
Other accruals and miscellaneous	27.2	23.8
	-----	-----
	142.9	133.9
Valuation allowance	(1.7)	(2.6)
	-----	-----
Total deferred tax assets	141.2	131.3
	-----	-----
Deferred tax liabilities:		
Tax over book depreciation	28.1	45.8
Pension	25.3	19.0
Other	21.0	17.5
	-----	-----
Total deferred tax liabilities	74.4	82.3
	-----	-----
Net deferred tax assets	\$ 66.8	\$ 49.0
	=====	=====

</TABLE>

The Company's share of accumulated unremitted earnings of foreign subsidiaries at December 31, 1998 and 1997 was \$172.9 and \$149.1 million, respectively.

At December 31, 1998, the Company had net operating loss carryforwards attributable to foreign operations for income tax purposes of \$6.7 million which expire from 1999 to 2006 if not offset against future taxable income. For financial reporting purposes, a valuation allowance has been established to offset the deferred tax assets related to those loss carryforwards.

NOTE 5. INVENTORIES

The components of inventories at December 31, were:

<TABLE>		
<CAPTION>		
(Dollars in millions)	1998	1997
	----	----
<S>	<C>	<C>
Raw materials and work in process	\$176.5	\$154.7
Finished goods	81.9	89.1
Supplies	17.3	15.6
	-----	-----
	\$275.7	\$259.4
	=====	=====

</TABLE>

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NOTE 6. BUSINESS SEGMENT DATA

The Company has adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective for the year ended December 31, 1998. The adoption of this statement has not changed the number of segments or the classification of divisions within each of the Company's reportable segments from prior years.

The Company has three reportable segments based on the similarity of products produced: Compressor Products, Engine & Power Train Products, and Pump Products. A full-line of hermetic compressors for residential and commercial air conditioning and refrigeration products are manufactured and marketed through

the Compressor Products Group. Gasoline engines and power train components for lawn and garden applications are produced and marketed by the Engine & Power Train Products Group. The Pump Products Group manufactures and sells centrifugal, sump and small submersible pumps for industrial, commercial, marine and agricultural applications.

The accounting policies of the reportable segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements. Transfers between segments are accounted for at cost plus a reasonable profit. There were no accounting changes in the years presented. Under SFAS No. 131, the Geographic Segment Information has changed from the prior year. All years presented indicate sales to external customers by country of destination rather than by geographic area. Under net long lived assets, the Company indicates the location of its property, plant and equipment net of depreciation by country.

In 1998, consolidated sales included revenues from two major customers. The Compressor Group and Engine and Power Train Group provided product to Customer A which represented 13% of consolidated sales. Customer B received product from the Engine and Power Train Group which represented 10% of consolidated sales.

Business segment data is presented on page 12 of this report.

NOTE 7. DEBT

Short-term debt consists of borrowings by foreign subsidiaries at varying interest rates under revolving credit agreements, advances on export receivables and overdraft arrangements with banks used in the normal course of business. The U.S. dollar equivalent of this debt was \$9.8 million (at 8.3%) at December 31, 1998, and \$22.6 million (at 7.4%) at December 31, 1997.

Long-term debt consists of the following:

1. Unsecured borrowings, primarily with banks, by foreign subsidiaries with interest at 7.5%. The U.S. dollar equivalent of these borrowings was \$2.7 and \$2.4 million at December 31, 1998 and 1997, respectively.
2. \$15.3 million (\$16 million in 1997) variable rate Industrial Development Revenue Bonds (effective interest rate of 6.1% at December 31, 1998) payable in quarterly installments from 1999 to 2021.

Scheduled maturities of long-term debt outstanding at December 31, 1998, are as follows: 1999--\$.8 million; 2000--\$1.7 million; 2001--\$1.6 million; 2002--\$.7 million; 2003 and beyond--\$13.2 million.

Interest paid was \$4.0 million in 1998, \$6.5 million in 1997 and \$6.4 million in 1996.

The Company has a \$100 million revolving credit facility for general corporate purposes. The facility has a three-year term which may be extended annually with the consent of the participating banks. Under the facility, the Company may select among various interest rate arrangements. As of December 31, 1998, the Company had not made any borrowings under this facility.

NOTE 8. ENVIRONMENTAL MATTERS

The Company has been named by the EPA as a potentially responsible party in connection with the Sheboygan River and Harbor Superfund Site in Wisconsin. At December 31, 1998 and 1997, the Company had an accrual of \$33.8 and \$29.0 million, respectively, for estimated costs associated with the cleanup of certain polychlorinated biphenyl (PCB) contamination at

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this Superfund Site. The increase in the accrual during 1998 reflects updated cost factors offset by insurance settlements received during the year. The Company has based the estimated cost of cleanup on ongoing engineering studies, including samples taken in the Sheboygan River, and on assumptions as to the nature, extent and areas that will have to be remediated. Significant assumptions underlying the estimated costs are that remediation will involve innovative technologies, including (but not limited to) bioremediation near the Company's plant site and along the upper river, and only natural armoring and bioremediation in the lower river and harbor. The EPA has indicated it expects to issue a record of decision on the cleanup of the Sheboygan River and Harbor Site in 1999, but the ultimate resolution of the matter may take much longer. The ultimate costs to the Company will be dependent upon factors beyond its control. These factors include the scope and methodology of the remedial action requirements to be established by the EPA (in consultation with the Wisconsin Department of Natural Resources (WDNR)), rapidly changing technology, and the outcome of any related litigation.

The Company, in cooperation with the WDNR, is conducting an investigation of soil and groundwater contamination at the Company's Grafton, Wisconsin plant. Certain test procedures are underway to assess the extent of contamination and to develop remedial options for the site. While the Company has provided for estimated investigation and on-site remediation costs, the extent and timing of future off-site remediation requirements, if any, are not presently determinable.

The WDNR has requested that the Company and other interested parties join it in a cooperative effort to clean up PCB contamination in the watershed of the south branch of the Manitowoc River, downstream of the Company's New Holstein, Wisconsin facility. The Company has cooperated to date with the WDNR in investigating the scope and range of the contamination. The WDNR has not identified the parties it believes are responsible for such contamination. The Company has provided for preliminary investigation expenses. Although participation in a cooperative remediation effort is under consideration, it is

not possible at this time to reasonably estimate the cost of any such participation.

In addition to the above mentioned sites, the Company is also currently participating with the EPA and various state agencies at certain other sites to determine the nature and extent of any remedial action which may be necessary with regard to such other sites. Based on limited preliminary data and other information currently available, the Company has no reason to believe that the level of expenditures for potential remedial action necessary at these other sites will have a material effect on its financial position.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Various lawsuits and claims, including those involving ordinary routine litigation incidental to its business, to which the Company is a party, are pending, or have been asserted, against the Company. Although the outcome of these matters cannot be predicted with certainty, and some of them may be disposed of unfavorably to the Company, management has no reason to believe that their disposition will have a materially adverse effect on the consolidated financial position of the Company.

NOTE 10. FINANCIAL INSTRUMENTS

Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily cash investments and accounts receivable. The Company places its cash investments in investment grade, short-term debt instruments and limits the amount of credit exposure to any one commercial issuer. Concentrations of credit risk with respect to receivables are limited due to the large number of customers in the Company's customer base, and their dispersion across different industries and geographic areas.

A portion of export accounts receivable of the Company's Brazilian subsidiary are sold at a discount. Discounted Brazilian export accounts receivable balances at December 31, 1998 and 1997, respectively, were \$15.4 million and \$18.1 million with discount rates, respectively of 7.3 percent and 6.2 percent. The Company maintains an allowance for losses based upon the expected collectability of all accounts receivable, including receivables sold.

The Company enters into forward exchange contracts to hedge receivables, payables and other known transactional exposures for periods consistent with the expected cash flows of the underlying transactions. Foreign exchange contracts generally mature within one year and

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are designed to limit exposure to exchange rate fluctuations because gains and losses on the hedged transactions offset gains and losses on these contracts. At December 31, 1998 and 1997 respectively, the Company had \$76.3 million and \$144.3 million in foreign exchange contracts outstanding.

The carrying value of cash and cash equivalents, receivables, accounts payable and the aggregate value of forward exchange contracts approximates fair value. The carrying value of short and long-term debt approximates fair value based on discounting the projected cash flows using market rates available for similar maturities.

NOTE 11. STOCKHOLDERS EQUITY

The shares of Class A common stock and Class B common stock are substantially identical except as to voting rights. Class A common stock has no voting rights except the right to i) vote on any amendments that could adversely affect the Class A Stock Protection Provision in the articles of incorporation and ii) vote in other limited circumstances, primarily involving mergers and acquisitions, as required by law.

A Shareholders' Rights Plan is in effect for each class of stock. These plans protect shareholders against unsolicited attempts to acquire control of the Company that do not offer an adequate price to all shareholders. The rights are not currently exercisable, but would become exercisable at an exercise price of \$80 per share, subject to adjustment, if certain events occurred relating to a person or group acquiring or attempting to acquire 10% or more of the outstanding shares of Class B common stock. The rights have no voting or dividend privileges and are attached to, and do not trade separately from, the Class A and Class B common stock. The rights expire on January 23, 2001. As of December 31, 1998, 16,410,438 shares of Class A common stock and 5,470,146 share of Class B common stock were reserved for future exercise under the plans.

On November 25, 1998 the Company announced an extension of its share repurchase program for the Class A common stock. Under the program, the Company is authorized to repurchase an additional one million Class A shares on the open market through December 31, 1999, depending upon market conditions and other factors. The repurchase program is expected to be financed primarily through internally available funds. In fiscal years 1997 and 1998, the Company repurchased and retired 1,000,000 shares of Class A common stock at a cost of approximately \$51.1 million. As of January 29, 1999, and subsequent to December 31, 1998, the Company has repurchased and retired an additional 90,000 shares at a cost of approximately \$4.1 million.

NOTE 12. BUSINESS ACQUISITIONS

In July, 1997 the Company completed the acquisition of two compressor manufacturing facilities in India for \$46.9 million. The transactions were accounted for as a purchase and the excess of cost over the acquired net assets

is being amortized over 40 years. Results of operations for the last six months of 1997 are included in the Company's statement of consolidated income.

NOTE 13. ASSET IMPAIRMENT LOSS

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company recorded an impairment loss on the buildings, tooling, machinery and equipment dedicated to the production of the scroll compressor. Due to the anticipated lengthy introduction period involving limited production, expected manufacturing costs and probable market conditions, it is estimated that the future cash flows from this product line will not be sufficient to cover the carrying value of the long-lived assets related to that business. Accordingly, the Company recognized an asset impairment loss of \$45 million (\$28.8 million or \$1.35 per share after taxes) in the fourth quarter of 1998. This loss is the difference between the carrying value of the scroll compressor long-lived assets and the estimated fair value of these assets based on an independent appraisal.

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MANAGEMENT'S REPORT

TO THE SHAREHOLDERS OF TECUMSEH PRODUCTS COMPANY

Management is responsible for the integrity and objectivity of the financial statements and other information presented in this annual report. The statements were prepared in accordance with generally accepted accounting principles and, where necessary, include certain amounts based on management's best estimate and judgment to reflect the expected effects of events and transactions that have not been completed. All financial information in the annual report is consistent with the financial statements.

Management has established and maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. These controls are documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process. This system is continually reviewed and evaluated and modified to reflect current conditions.

The Audit Committee of the Board of Directors, composed primarily of outside Directors, is responsible for monitoring the Company's accounting and reporting practices. The Audit Committee meets regularly with management, the internal auditors, and the independent public accountants to review the work of each and to assure that each is carrying out its responsibilities. Both the independent public accountants and the internal auditors have unrestricted access to the Audit Committee with and without management's representative present, to discuss the results of their examinations and their opinions on the adequacy of internal accounting controls and quality of financial reporting.

The independent public accountants are engaged to express an opinion on the Company's financial statements. Their opinion is based on procedures which they believe to be sufficient to provide reasonable assurance that the financial statements contain no material errors.

Todd W. Herrick
President and Chief Executive Officer

John H. Foss
Vice President, Treasurer and
Chief Financial Officer

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INDEPENDENT ACCOUNTANT'S REPORT

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF TECUMSEH PRODUCTS COMPANY

We have audited the accompanying consolidated balance sheets of Tecumseh Products Company and Subsidiaries as of December 31, 1998 and 1997, and the related statements of consolidated income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Ciulla, Smith & Dale, LLP
 Certified Public Accountants

January 29, 1999
 Southfield, Michigan

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TECUMSEH PRODUCTS COMPANY AND SUBSIDIARIES

 SELECTED FINANCIAL DATA

Dollars in millions except per share data

<TABLE>

<CAPTION>

	1998 (a)	1997	1996 (b)	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA:					
Net sales	\$1,750.2	\$1,728.3	\$1,784.6	\$1,716.0	\$1,533.4
Net income before accounting changes	74.2	100.5	112.6	119.2	120.3
Cumulative effect of changes in accounting principles	--	--	--	--	--
Net income (loss)	74.2	100.5	112.6	119.2	120.3
PER SHARE OF COMMON STOCK (f)					
Net income before accounting changes	\$3.47	\$4.59	\$5.15	\$5.45	\$5.50
Cumulative effect of accounting changes	--	--	--	--	--
Net income (loss)	3.47	4.59	5.15	5.45	5.50
Cash dividends declared	1.20	1.20	1.68	1.61	1.35
BALANCE SHEET DATA (AT PERIOD END):					
Cash and cash equivalents	\$277.7	\$304.1	\$277.7	\$261.6	\$283.2
Working capital (g)	605.9	554.8	549.7	521.3	504.2
Net property, plant and equipment	508.9	569.7	529.1	477.0	402.4
Total assets	1,556.2	1,537.4	1,472.6	1,407.6	1,289.8
Long-term debt	17.2	17.5	14.4	14.7	9.1
Stockholders' equity	995.7	1,000.2	947.5	877.1	785.5
OTHER DATA:					
Capital expenditures	\$64.4	\$90.6	\$115.2	\$127.4	\$136.2
Depreciation and amortization	74.6	71.1	64.6	59.2	55.7

</TABLE>

Note: The above per share amounts have been adjusted as necessary to reflect the 100% stock dividend paid June 30, 1993 and the 100% stock dividend paid May 29, 1992.

(a) The 1998 results include a \$45 million nonrecurring charge asset impairment. This charge was equivalent to \$1.35 per share after taxes.

(b) The 1996 results include \$5.1 million nonrecurring charge for environmental and litigation costs. This charge was equivalent to \$.15 per share after taxes.

(c) The 1992 results reflect the cumulative effect of adoption of Statement of Financial Accounting Standards (SFAS) No. 106, Accounting for Non-pension Postretirement Benefits, and SFAS No. 109, Accounting for Income Taxes.

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<TABLE>

<CAPTION>

1993	1992 (c)	1991	1990 (d)	1989 (e)
------	----------	------	----------	----------

<S>	<C>	<C>	<C>	<C>
\$1,314.2	\$1,258.5	\$1,197.2	\$1,318.1	\$1,509.8

81.4	52.3	42.5	14.2	82.6
------	------	------	------	------

--	(95.0)	--	--	--
----	--------	----	----	----

81.4	(42.7)	42.5	14.2	82.6
------	--------	------	------	------

\$3.72	\$2.39	\$1.94	\$0.65	\$3.77
--------	--------	--------	--------	--------

--	(4.34)	--	--	--
----	--------	----	----	----

3.72	(1.95)	1.94	0.65	3.77
------	--------	------	------	------

1.15	0.80	0.80	0.80	1.11
------	------	------	------	------

\$313.2	\$263.6	\$256.4	\$240.3	\$187.2
---------	---------	---------	---------	---------

473.6	420.4	403.1	414.3	397.3
-------	-------	-------	-------	-------

320.4	322.9	324.3	304.9	280.0
-------	-------	-------	-------	-------

1,132.7	1,078.6	1,055.4	1,032.2	1,034.1
---------	---------	---------	---------	---------

11.2	14.4	17.9	23.6	19.9
------	------	------	------	------

686.8	639.8	712.8	692.2	682.3
-------	-------	-------	-------	-------

\$51.1	\$56.6	\$85.8	\$64.8	\$57.5
--------	--------	--------	--------	--------

52.5	53.6	49.9	49.6	43.9
------	------	------	------	------

</TABLE>

(d) The 1990 results include a nonrecurring provision for environmental cleanup of \$19.2 million after income taxes, or \$0.88 per share.

(e) The 1989 results reflect completion of the acquisitions of Tecumseh Europe S.A. on December 30, 1988 and Tecumseh Europa S.p.A. on July 25, 1989.

(f) Basic and diluted earnings per share are equivalent.

(g) Working capital is the excess of current assets over current liabilities.

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TECUMSEH PRODUCTS COMPANY AND SUBSIDIARIES

QUARTERLY FINANCIAL DATA

(Dollars in millions except per share data)

<TABLE>

<CAPTION>

	QUARTER				TOTAL
	FIRST	SECOND	THIRD	FOURTH *	
<S>	<C>	<C>	<C>	<C>	<C>
1998					
Net sales	\$459.9	\$500.4	\$397.1	\$392.8	\$1,750.2
Gross profit	62.5	77.4	53.4	19.1	212.4
Net income	\$24.9	\$33.9	\$19.2	(\$3.8)	\$74.2
	=====	=====	=====	=====	=====
Basic and diluted earnings per share	\$1.15	\$1.57	\$0.90	(\$0.18)	\$3.47
	=====	=====	=====	=====	=====
1997					
Net sales	\$479.6	\$480.6	\$389.0	\$379.1	\$1,728.3
Gross profit	72.3	72.5	55.6	49.2	249.6
Net income	\$31.5	\$31.8	\$21.9	\$15.3	\$100.5
	=====	=====	=====	=====	=====
Basic and diluted earnings per share	\$1.44	\$1.45	\$1.00	\$0.70	\$4.59
	=====	=====	=====	=====	=====

</TABLE>

* Fourth quarter 1998 results include a \$45 million nonrecurring charge asset impairment. This charge was equivalent to \$1.37 per share after taxes in the fourth quarter. Favorable fourth quarter adjustments to net pension expense increased 1998 fourth quarter net income by \$3.7 million or \$.18 per share.

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TECUMSEH PRODUCTS COMPANY AND SUBSIDIARIES

INFORMATION CONCERNING EQUITY SECURITIES

The Company's Class A and Class B common stock trades on the Nasdaq Stock Market under the symbols TECUA and TECUB, respectively. Total shareholders as of February 22, 1999 were 7,745 for Class A common stock and 3,833 for Class B common stock.

<TABLE>

<CAPTION>

Quarter Ended	1998				Cash Dividends Declared
	Sales Price				
	Class A High	Class A Low	Class B High	Class B Low	
<S>	<C>	<C>	<C>	<C>	<C>
March 31	53 3/4	52 1/2	56 5/8	55	\$0.30
June 30	54 5/8	52 1/8	58 3/4	56 3/4	\$0.30
September 30	51	49 1/16	52 1/2	51 1/2	\$0.30
December 31	46 5/8	44	45 1/4	43 1/4	\$0.30

</TABLE>

<TABLE>

<CAPTION>

1997

Sales Price

	Class A		Class B		Cash
	High	Low	High	Low	Dividends Declared
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
March 31	60	56 1/4	56 1/4	53 3/4	\$0.30
June 30	60 1/8	53 1/4	56 3/8	50 1/2	\$0.30
September 30	60 1/8	55	58	52	\$0.30
December 31	57 7/8	46 7/8	58	48 1/4	\$0.30

</TABLE>

EXHIBIT (21)

Tecumseh Products Company Report on
Form 10-K for the period ended December 31, 1998

Subsidiaries of the Company

The following is a list of subsidiaries of the Company as of December 31, 1998 except that certain subsidiaries, the sole function of which is to hold the stock of operating subsidiaries, which in the aggregate do not constitute significant subsidiaries, have been omitted. Subject to the foregoing in each case, 100% of the voting securities (except for directors' qualifying shares, if required) are owned by the subsidiary's immediate parent as indicated by indentation.

<TABLE>

<CAPTION>

Name -----	State or Country of Organization -----
<S>	<C>
MP Pumps, Inc.	Michigan
Ottawa Machine & Tool Co.	Michigan
Tecumseh do Brasil, Ltd.	Brazil
Tec Kold International Company, Ltd.	Lichtenstein
SICOM Europe Srl	Italy
Tecumseh Products Company of Canada, Ltd.	Canada
Tecumseh Products Company, Engine & Transmission Group, Dunlap Operations, Inc.	Tennessee
Douglas Products, Inc.	Georgia
Tecumseh France S.A.	France
Tecumseh Europe S.A.	France
Societe Des Moteurs Electriques de Normandie S.A.	France
Societe Immobiliere De Construction de La Verpilliere	France
Tecumseh Services EURL	France
Tecumseh Products Company, International Division, Inc. (FSC)	Virgin Islands
Tecumseh Europa, S.p.A.	Italy
Society T.I.G.E.R.	France
Tecumseh Deutschland GmbH	Germany
Tecumseh U.K. Limited	United Kingdom
Little Giant Pump Co.	Oklahoma
Trenton Division, Inc.	Tennessee
Vitrus, Inc.	Rhode Island
Tecumseh Products India, Ltd.	India
Tecumseh India Private, Ltd.	India

</TABLE>

EXHIBIT (23)

REPORT AND CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Tecumseh Products Company

We hereby consent to the incorporation by reference in this Annual Report on Form 10-K of Tecumseh Products Company for the year ended December 31, 1998 of our report dated January 29, 1999 which appears on page 25 of the Annual Report to Shareholders for the year ended December 31, 1998.

Our audit also included the related financial schedule for the three years ended December 31, 1998 listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit. In our opinion, the financial schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

CIULLA, SMITH & DALE, LLP

Southfield, Michigan
January 29, 1999

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