



A.O. Smith Announces Earnings of \$.45 Per Share; Company Revises Outlook For Remainder of Year

MILWAUKEE, July 17 /PRNewswire/ -- A.O. Smith Corporation (NYSE: AOS - Amex: SMCA) today announced second quarter net earnings of \$10.7 million or \$.45 per share. Earnings were in the range of company and analyst estimates, but lower than the record earnings of \$.74 per share in the second quarter of 2000.

"In spite of the weak domestic economy, earnings increased over the first quarter of this year," Chairman and Chief Executive Officer Robert J. O'Toole, said. "The company's product repositioning and cost reduction initiatives remain on schedule, with the positive impact of these actions accelerating during the second half of this year.

"Another encouraging sign is the consistent performance of our Water Products Company. Water Products' sales are nearly equal to last year's record-setting pace, and operating profit has improved over the first six months of last year."

Sales for the quarter ended June 30 were \$308 million. For the first six months of 2001, sales were \$626 million, compared with sales of \$686 million for the comparable period of 2000. Net earnings of \$19.2 million or \$.81 per share compare with earnings of \$31.7 million or \$1.34 per share for the first six months of 2000.

Influenced by persistent weakness in its major markets, Electric Motor Technologies, A.O. Smith's largest operating unit, reported second quarter sales of \$222 million, down 13 percent from last year's record second quarter. Overall economic sluggishness, reduced industrial demand, and inventory adjustments by large retailers adversely affected motor demand in the pool and spa, air compressor, and home improvement markets. Sales volume for air conditioning motors was stable, as customer exports offset sluggish domestic market conditions.

Operating profits for the second quarter were lower than the same period in 2000 due to the decreased volume, increased Mexican labor costs, and competitive pressures in a number of its major markets.

Electric Motor Technologies also announced it plans to build a second hermetic motor assembly plant in Acuna, Mexico. The plant will supply motors for residential and light commercial air conditioning applications. The new plant is scheduled to open during the first quarter of 2002.

Continued international growth, most notably in China, partially offset a flat domestic water heater market, as Water Systems Technologies' second quarter sales were slightly lower than last year's second quarter. North American sales of standard and specialty commercial water heating equipment decreased approximately three percent, as consistent replacement water heater demand partially offset a decline in commercial construction. Sales of residential water heaters were two percent lower than the 2000 second quarter, as wholesale distributors decreased order volumes to help maintain inventory levels.

Operating profits were higher than the second quarter of 2000, due to improved performance of the company's business in China and margin improvements in commercial water heaters.

Company discusses outlook

"The widespread weakness in the U.S. industrial economy makes it very difficult to forecast future performance with any degree of certainty," O'Toole said. "We expect that weakness, as well as the seasonal nature of several of our key motor markets, will result in lower sales in the second half of 2001. While we anticipate second half sales to exceed last year's levels, market conditions will cause this growth to be modest.

"The company continues to reduce cost throughout its operations," he continued. "We have now closed three U.S. motor assembly plants. In addition, we have announced plans to transfer production from a plant in Lexington, Tenn., within the next several months. We continue to take actions to reduce spending. We expect these actions will put us in a position to strongly benefit when our markets recover.

"Primarily as a result of the continued market softness, we expect earnings to range between \$.20 and \$.25 per share for the third quarter. For the entire year, we anticipate earnings will be in a range of \$1.20 to \$1.30."

A.O. Smith Corporation will broadcast a live conference call this morning to discuss second-quarter 2001 results. The call can be heard on the company's web site, <http://www.aosmith.com> beginning at 10:00 a.m. (eastern time).

A.O. Smith Corporation, with headquarters in Milwaukee, Wis., is a leading marketer and manufacturer of electric motors and water heaters, serving customers worldwide. It is one of North America's largest manufacturers of electric motors, with a comprehensive line of fractional horsepower, integral horsepower, and hermetic motors.

The company also is North America's largest manufacturer of commercial water heating equipment and a leading supplier of residential water heaters and hydronic boilers. The company has facilities in the United States, Mexico, Canada, England, Ireland, Hungary, the Netherlands, and China and employs approximately 14,000 people.

Forward-Looking Statements

Certain statements in this report are "forward-looking statements." These forward-looking statements can generally be identified as such because the context of the statement will include words such as the company "believes," "anticipates," "estimates," "expects," "projects," or words of similar import.

Although the company believes that its expectations are based upon reasonable assumptions within the bounds of its knowledge of its business, there can be no assurance that the results expressed in forward-looking statements will be realized. Although a significant portion of the company's sales are derived from the replacement of previously installed product, and such sales are therefore less volatile, numerous factors may affect actual results and cause results to differ materially from those expressed in forward-looking statements made by, or on behalf of, the company. The company considers most important among such factors, general economic conditions, cost stability, foreign currency fluctuations, climatic conditions, competitive pressures, and the successful implementation of cost reduction programs including the integration of the MagneTek electric motors acquisition.

All subsequent written and oral forward-looking statements attributable to the company, or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

A.O. SMITH CORPORATION STATEMENT OF CASH FLOWS

	Six Months ended June 30	
	2001	2000
Operating Activities		
Continuing		
Net earnings	\$19,222	\$31,748
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation & amortization	22,980	22,769
Net change in current assets and liabilities	(22,871)	(18,671)
Net change in noncurrent assets and liabilities	(2,481)	(6,263)
Other	496	662
Cash Provided by Operating Activities	17,346	30,245
Investing Activities		
Capital expenditures	(15,498)	(20,733)
Capitalized purchased software costs	(545)	(558)
Cash Used in Investing Activities	(16,043)	(21,291)
Cash Flow before Financing	1,303	8,954
Financing Activities		
Debt retired	(40,484)	(6,451)
Other stock transactions	1,046	38
Dividends paid	(6,139)	(5,617)
Cash Used in Financing Activities	(45,577)	(12,030)
Discontinued		
Cash Provided by (Used in) Discontinued Operations	44,174	(3,377)
Net decrease in cash and cash equivalents	(100)	(6,453)
Cash and cash equivalents - beginning of period	15,287	14,761
Cash and Cash Equivalents - End of Period	\$15,187	\$8,308

Balance Sheet

	June 30 2001	December 31 2000
ASSETS:		
Cash and cash equivalents	\$15,187	\$15,287
Receivables	198,226	169,117
Inventories	158,864	169,630
Deferred income taxes	1,568	7,215
Other current assets	38,896	22,199
Net current assets-discontinued operations	--	22,651
Total Current Assets	412,741	406,099
Net property, plant and equipment	278,831	282,835
Goodwill and other intangibles	241,421	244,821
Other assets	115,099	107,928
Net long-term assets - discontinued operations	--	17,493
Total Assets	\$1,048,092	\$1,059,176
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Trade payables	\$101,588	\$91,780
Accrued payroll and benefits	23,162	27,388
Product warranty	11,629	11,574
Income taxes	201	1,695
Long-term debt due within one year	11,129	11,129
Other current liabilities	31,338	26,865
Total Current Liabilities	179,047	170,431
Long-term debt	275,888	316,372
Other liabilities	59,149	61,856
Deferred income taxes	69,687	62,122
Stockholders' equity	464,321	448,395
Total Liabilities and Stockholders' Equity	\$1,048,092	\$1,059,176

A.O. SMITH CORPORATION AND SUBSIDIARIES
(condensed consolidated financial statements -
\$000 omitted except per share data)
Statement of Earnings

	Three Months ended		Six Months ended	
	June 30		June 30	
	2001	2000	2001	2000
Continuing Operations				
Net Sales				
Electric Motor Technologies	\$221,630	\$253,579	\$447,883	\$505,922
Water Systems Technologies	86,618	87,706	178,600	179,929
	308,248	341,285	626,483	685,851
Costs and Expenses				
Cost of products sold	249,663	267,819	509,103	539,014
Selling, general and administrative	36,338	39,304	74,461	82,295
Interest expense	3,901	5,733	8,702	11,164
Amortization of intangibles	1,734	1,732	3,467	3,459
Other (income)/expense	349	(530)	948	313
Tax provision	5,570	9,634	10,580	17,858
Total costs and expenses	297,555	323,692	607,261	654,103
Earnings from Continuing Operations	10,693	17,593	19,222	31,748
Discontinued operations less related income tax provision (benefit) - \$(21) & \$276	--	(32)	--	424
Net Earnings	\$10,693	\$17,561	\$19,222	\$32,172
Net Earnings Per Share of Common Stock (Diluted)				
Continuing Operations	\$0.45	\$0.74	\$0.81	\$1.34
Discontinued Operations	\$--	\$--	\$--	\$0.02
Net Earnings	\$0.45	\$0.74	\$0.81	\$1.36
Average Common Shares Outstanding				

(000's omitted)

23,912

23,734

23,871

23,716