



A. O. Smith earns \$.66 per share in second quarter, exceeding estimates, and increases EPS projection to \$1.70 - \$1.80 for 2002

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Milwaukee, Wis.—A. O. Smith Corporation (AOS-NYSE, SMCA-AMEX) today announced record second quarter net earnings of \$18.0 million, a 68 percent improvement over net earnings of \$10.7 million in the second quarter of 2001.

On a per share basis, second quarter earnings were \$.66 compared to \$.45 in 2001. Second quarter earnings were impacted by the company's May 10 public stock offering which reduced quarterly earnings by approximately \$.06 per share. Earnings solidly exceeded consensus estimates of \$.49 per share.

Sales for the quarter ended June 30 were \$386.3 million compared with \$308.2 million for the second quarter of 2001. The increase was primarily due to sales from the State Industries water heater operations, acquired in December 2001.

Chairman and Chief Executive Officer Robert J. O'Toole attributed the company's improved performance to the positive impact of ongoing cost reduction initiatives and the continued success of integrating State Industries into A. O. Smith's Water Systems unit.

"Water Systems is doing a very effective job of combining these two businesses and taking advantage of opportunities to reduce cost and improve efficiency. Our integration program is on schedule, and we are seeing the benefit in the operating earnings of the Water Systems business."

"Although Electrical Products' sales were flat compared with last year's second quarter, operating earnings and margins were significantly higher, as their cost-reduction programs gain momentum."

For the first six months of 2002, A. O. Smith reported net earnings of \$30.1 million or \$1.17 per share compared with first half 2001 net earnings of \$19.2 million or \$.81 per share. During the same period, sales were \$758.2 million, an increase of more than 21 percent over second quarter 2001 sales of \$626.5 million, primarily due to the State Industries acquisition.

Electrical Products

Second quarter sales of \$219.2 million for the manufacturer of electric motors were modestly lower than the \$221.6 million reported in 2001. Despite extremely competitive market conditions in the motor industry, operating earnings were significantly improved from \$15.3 million in the second quarter of 2001 to \$20.5 million this year, due to the impact of cost-reduction activities and the elimination of goodwill amortization.

Water Systems

Second quarter sales were \$167.1 million, compared with \$86.6 million in the second quarter of last year, and included \$77.9 million in sales associated with State Industries. Excluding State, sales increased approximately three percent in the quarter with similar increases in both residential and commercial water heaters.

Second quarter operating earnings of \$16.6 million were 68 percent higher than the \$9.9 million earned in the 2001 second quarter. Higher earnings were the result of increased sales as well as cost reductions associated with integrating State into the existing Water Systems business. During the second quarter, Water Systems completed the relocation of its headquarters to Ashland City, Tenn., and the consolidation of its product engineering function into the McBee, S. C., research center.

Outlook

"We continue to monitor conditions in our served markets and customers' projections and remain cautious about sales volumes for the rest of the year," O'Toole said.

"Our public stock offering completed on May 10, with the sale of 4.8 million shares of common stock, strengthened our capital structure and broadened our shareholder base," O'Toole said. "The sale of these shares will, however, dilute 2002 earnings by \$.17 per share. We expect that the continued success of our cost-reduction programs will more than offset this dilution. Therefore, we are improving our full year's earnings guidance to \$1.70 to \$1.80 per share."

A. O. Smith will broadcast a live conference call beginning at 11:00 a.m. (eastern time) today. The call can be heard on the company's web site, www.aosmith.com. An audio replay of the call will be available on the company's web site after the live event.

Forward-looking statements

This release contains statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "continue," or words of similar meaning. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this release. Factors that could cause such a variance include the following: instability in the company's electric motor and water products markets; inability to timely and properly integrate the acquisition of State Industries; the inability to implement cost-reduction programs; adverse changes in general economic conditions; significant increases in raw material prices; competitive pressures on the company's businesses; and the potential that assumptions on which the company based its expectations are inaccurate or will prove to be incorrect.

Forward-looking statements included in this press release are made only as of the date of this release, and the company is under no obligation to update these statements to reflect subsequent events or circumstances. All subsequent written and oral forward-looking statements attributable to the company, or persons acting on its behalf, are qualified in their entirety by these cautionary statements.

A. O. Smith Corporation, with headquarters in Milwaukee, Wis., is one of North America's largest manufacturers of electric motors, with a comprehensive line of hermetic motors, fractional horsepower alternating current (AC) and direct current (DC) motors, and integral horsepower motors, as well as one of North America's largest manufacturers of residential and commercial water heating equipment. A. O. Smith Corporation has facilities in the United States, Mexico, Canada, England, Ireland, Hungary, the Netherlands, and China and employs approximately 15,000 people.

[Click here to download second quarter financial tables in excel format:](#)