



A. O. Smith earns \$.34 in third quarter and increases 2002 earnings forecast; issues 2003 guidance of \$2.05 to \$2.25 per share

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Milwaukee, Wis.—A. O. Smith Corporation (AOS-NYSE) today announced significantly improved third quarter earnings as the company continues to benefit from on-going cost reduction initiatives and the successful integration of the December 2001 State Industries acquisition.

Net earnings for the quarter ended Sept. 30 were \$10.0 million or \$.34 per share, compared with earnings of \$.4 million or \$.02 per share. Third quarter revenues of \$352.4 million reflected the impact of State Industries, the July acquisition of Athens Products and higher sales in the base water heater business. Third quarter 2001 sales were \$269.1 million.

The company also announced it was increasing its earnings estimate for 2002 to between \$1.80 and \$1.85 per share.

"Our operating units continue to exceed their cost-reduction objectives in spite of the lingering weakness in the domestic economy," Chairman and Chief Executive Officer Robert J. O'Toole observed. "We are confident that we can continue to enhance margins through cost reductions and efficiency improvements for the remainder of this year and into 2003."

"We are seeing signs of stabilizing demand in some of our key electric motor markets," O'Toole noted, "and our Water Systems business continues to perform very well in this market. In addition, the Water Systems integration and Electric Motors repositioning programs remain on schedule, as reflected in the improved operating earnings of those units."

For the first nine months of 2002, sales were \$1.11 billion, an increase of 24 percent over sales of \$896 million for the same period last year. Nine-month net earnings of \$40.1 million or \$1.49 per share were more than double the \$19.6 million or \$.82 per share earned during the comparable nine months of 2001.

Electrical Products

Third-quarter sales of \$197 million were nearly six percent higher than the same period in 2001 due to the acquisition of Athens Products. Improved performance in the pump motor, international and after-market distribution segments were offset by lower sales to the commercial air conditioning market.

Operating earnings of \$10.3 million were significantly higher than the year-ago period due primarily to the positive impact of the company's cost-reduction initiatives and the elimination of goodwill amortization.

Water Systems

Third quarter sales of \$155 million included \$68 million associated with the acquisition of State Industries. Excluding the impact of State, sales increased approximately six percent over the same period last year due to higher volumes of both residential and commercial water heaters and improved sales in China.

Third quarter operating earnings of \$13.4 million were more than fifty percent higher than the \$8.8 million earned in the 2001 third quarter. Higher volume and improved cost performance, including the integration of State's operations into the existing Water Systems business, contributed to the earnings improvement.

Company discusses outlook

"The improved margin performance of our operating units is having a positive effect on earnings per share, and consequently, we expect 2002 earnings will reach between \$1.80 and \$1.85 per share," O'Toole said.

"Looking ahead, we believe the challenging market conditions we are now experiencing will continue into 2003, particularly in our electric motor markets. However, the on-going impact of Electrical Products' cost-reduction actions, combined with the continued benefits of the State integration in Water Systems will have a positive impact on 2003 earnings. Consequently, we estimate next year's earnings will be in the range of \$2.05 to \$2.25 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 third quarter financial tables in excel format:](#)