



## A.O. Smith Second Quarter Earnings Per Share Increase 28 Percent to \$.78 Per Share

MILWAUKEE, July 15 -- A.O. Smith Corporation (NYSE: AOS; Amex: SMC) today announced second quarter 1998 earnings per share of \$.78, a 28 percent increase over 1997 second quarter earnings of \$.61 per share. The company reported earnings from continuing operations of \$12.6 million, an eight percent increase over 1997 second quarter earnings of \$11.7 million.

Second quarter sales of the Milwaukee-based manufacturer of \$227 million were comparable to 1997 sales of \$225 million.

"Improved performance at the Water Systems Technologies platform and reduced general and administrative expense combined to generate the improved second quarter results," Robert J. O'Toole, chairman and chief executive officer, observed.

For the first six months of 1998, A.O. Smith earned \$1.40 per share, a 49 percent increase over 1997 earnings of \$.94 per share. Earnings from continuing operations were \$22.8 million, a 21 percent increase over 1997 first half earnings of \$18.8 million.

Second quarter sales of Electric Motor Technologies, A.O. Smith's largest platform, were \$3 million higher than the second quarter of 1997. Stronger sales of pump, subfractional, and air-moving motors helped offset lower international sales resulting from the Asian economic situation. Second quarter operating profit was lower than the prior year primarily due to lower pricing in some segments of the market.

Stronger sales of both residential and commercial water heaters enabled the Water Systems Technologies platform to increase its sales four percent to more than \$74 million in the second quarter. Unit volumes for residential and commercial water heaters were stronger compared with the second quarter of 1997. Improved pricing for commercial helped generate higher operating profit.

The sales of the Storage & Fluid Handling Technologies platform declined nearly 10 percent in the second quarter to approximately \$38 million as a result of significantly lower sales of fiberglass pipe to chemical and petroleum production markets and lower sales of storage products for municipal and agricultural applications. Despite the decline in sales, second quarter operating profits were comparable to the same period in 1997, reflecting cost-reduction actions taken during the second half of last year.

On June 9, A.O. Smith's board of directors declared a three-for-two stock split to be paid on August 17 to shareholders of record on July 31. Second quarter earnings per share, adjusted for the stock split, would be \$.52 compared with \$.40 earned in the second quarter of 1997. At the June 9 meeting, the board also increased the quarterly cash dividend to \$.12 per share (post-split).

On July 1, the company completed the acquisition of the General Electric's domestic compressor motor business for \$120 million. Sales and earnings of that operation will be reflected in the third quarter results of the Electric Motor Technologies platform. The acquisition includes a 250,000 square foot manufacturing facility located in Scottsville, Ky., employing approximately 875 people. The business's annual sales are approximately \$130 million, making A.O. Smith North America's leading manufacturer of compressor motors for the air conditioning industry.

Earlier this month, the company signed a five-year agreement with York International, the largest independent U.S. manufacturer of heating and air conditioning equipment, to supply York and its Bristol Compressors subsidiary with compressor, fan, and blower motors. Under this agreement, A.O. Smith becomes a Tier 1 supplier and now will provide product for all of York's HVAC motor applications.

A.O. Smith Corporation is a diversified manufacturer with headquarters in Milwaukee, Wis., and total sales of \$833 million in 1997. Its major product lines include fractional horsepower, hermetic, and subfractional horsepower electric motors; residential and commercial water heaters; municipal, industrial, and agricultural storage tanks; and fiberglass reinforced piping systems.

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

	Three Months ended		Six Months ended	
	June 30		June 30	
Continuing	1998	1997	1998	1997
Sales				

Electric Motor Technologies	\$113,765	\$110,771	\$225,604	\$204,698
Water Systems Technologies	74,295	71,374	148,849	142,346
Storage & Fluid				
Handling Technologies	38,620	42,793	75,182	74,142
Net Sales	226,680	224,938	449,635	421,186
Costs and Expenses				
Cost of Products Sold	178,827	176,296	356,013	329,746
Selling, General				
and Administrative	26,381	29,845	54,281	57,238
Interest Expense	1,593	2,445	3,217	4,689
Interest Income	(1,309)	(3,302)	(3,021)	(3,360)
Other Expense	692	701	1,414	1,691
Tax Provision	7,193	6,694	13,231	11,085
Total Costs and Expenses	213,377	212,679	425,135	401,089
Earnings Before Equity				
In Loss of Joint Ventures	13,303	12,259	24,500	20,097
Equity In Loss of Joint Ventures	(674)	(581)	(1,693)	(1,298)
Earnings from Continuing				
Operations	12,629	11,678	22,807	18,799
Continuing Earnings Per				
Share of Common Stock (Diluted)	\$.78	\$.61	\$1.40	\$.94
Average Common Shares				
Outstanding (000s omitted)	16,190	19,246	16,332	19,974
Adjusted for 3 for 2 Stock Split	\$.52	\$.40	\$.93	\$.63
Payable August 17 to shareholders				
of record July 31				
Average Common Shares				
Outstanding (000s omitted)	24,285	28,869	24,498	29,961

A.0. SMITH CORPORATION

Balance Sheet

	June 30	December 31
	1998	1997
ASSETS:		
Cash and cash equivalents	\$99,672	\$145,896
Receivables	146,764	126,232
Inventories	78,159	79,049
Deferred income taxes	9,707	11,849
Other current assets	4,190	2,702
Total Current Assets	338,492	365,728
Net property, plant and equipment	207,737	207,756
Investments in and advances		
to joint ventures	29,660	25,605
Goodwill	50,925	51,783
Other assets	69,809	65,644
Total Assets	\$696,623	\$716,516
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Trade payables	\$57,137	\$61,299
Accrued payroll and benefits	24,948	26,397
Product warranty	7,492	7,972
Income taxes	282	6,607
Long-term debt due within one year	5,566	5,590
Other current liabilities	22,757	20,017
Total Current Liabilities	118,182	127,882
Long-term debt	100,190	100,972
Other liabilities	55,120	59,515
Deferred income taxes	30,264	28,442
Stockholders' equity	392,867	399,705
Total Liabilities and Stockholders' Equity	\$696,623	\$716,516

A.0. SMITH CORPORATION

STATEMENT OF CASH FLOWS

	Six Months ended	
	June 30	
	1998	1997
Operating Activities		
Continuing		
Net earnings	\$22,807	\$18,799
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation & amortization	13,443	12,708
Deferred income taxes	3,964	(1,455)
Equity in loss of joint ventures	1,693	1,298
Net change in current assets and liabilities	(28,549)	(18,318)
Net change in noncurrent assets and liabilities	(9,441)	656
Other	537	491
Cash Provided by Operating Activities	4,454	14,179
Investing Activities		
Capital expenditures	(12,367)	(23,801)
Capitalized purchased software costs	(547)	(730)
Investment in joint ventures	(5,748)	(7,436)
Acquisition of business (net of cash acquired)	0	(59,897)
Cash Used by Investing Activities	(18,662)	(91,864)
Cash Used by Continuing Operations before Financing Activities	(14,208)	(77,685)
Discontinued		
Cash Provided / (Used) by Discontinued Operations before Financing Activities	(1,196)	536,178
Financing Activities		
Long-term debt incurred	819	0
Long-term debt retired	(1,625)	(139,406)
Purchase of common stock held in treasury	(24,860)	(101,579)
Proceeds from common stock options exercised	202	2,880
Tax benefit from exercise of stock options	69	334
Dividends paid	(5,425)	(6,798)
Cash Used by Financing Activities	(30,820)	(244,569)
Net increase / (decrease) in cash and cash equivalents	(46,224)	213,924
Cash and cash equivalents - beginning of period	145,896	6,405
Cash and Cash Equivalents - End of Period	\$99,672	\$220,329