



A.O. Smith Reports Fourth Quarter Operating Earnings of \$.04 Per Share

MILWAUKEE, Jan. 23 /PRNewswire/ --A.O. Smith Corporation (NYSE: AOS) today announced earnings (before special charges) of \$1.0 million or \$.04 per share for the fourth quarter. For 2001, earnings before special charges were \$21 million or \$.86 per share. Fourth quarter operating earnings exceeded prior estimates of breakeven results.

Including a \$9.4 million special charge related primarily to the restructuring of its electric motor operation, the company recorded a fourth-quarter net loss of \$5.1 million, equivalent to \$.21 per share and, for the full year, net earnings of \$14.5 million, or \$.61 per share.

Earnings from continuing operations in the 2000 fourth quarter were \$2.6 million or \$.11 per share. Earnings from continuing operations for 2000 were \$42 million or \$1.76 per share.

Sales for the Milwaukee-based manufacturer of electric motors and water heaters were approximately \$1.15 billion, eight percent lower than the \$1.25 billion generated in 2000. Fourth quarter sales were \$256 million, approximately six percent lower than the comparable period in 2000.

"The weakness in our electric motors business that began in the second half of 2000 persisted throughout 2001," Chairman and Chief Executive Officer Robert J. O'Toole, observed. "On a more positive note, Water Products reported its fourth consecutive year of higher sales and operating profit, a noteworthy achievement considering the sluggish economic environment."

Electric Motors

Electric Motor sales in 2001 of \$803 million were 11 percent lower than the prior year. The downturn that began in the heating and air conditioning market during the second half of 2000 expanded to include the company's other major motor markets during 2001. Operating profit (before special charges) declined to \$28.9 million from \$75.6 million in 2000 as a result of the lower volumes and increased competitive pressures.

During the fourth quarter of 2001, Electric Motors initiated a series of actions to reduce operating expenses. The program includes a 10 percent reduction of the company's salaried workforce, additional product repositioning actions, and the realignment of warehouse operations.

Water Systems

Higher volumes in its residential water heating business and the continued expansion of its international operations resulted in record Water Systems sales of \$348 million, modestly higher than the prior year.

Operating profit (before special charges) at \$40.5 million represents a new record. The 16 percent profit improvement over the prior year is due to improved operating efficiency and better performance in the company's operations in China.

On December 28, the company completed the acquisition of State Industries Inc. of Ashland City, Tenn. The acquisition will nearly double the size of the company's water heating business and is expected to generate earnings accretion of \$.15 per share in 2002. State Industries serves both the retail and wholesale distribution channels of the residential water heating market segment and markets commercial water heaters through the wholesale distribution channel.

Company discusses outlook

"While recent information on lower inventory levels in the HVAC industry is encouraging, the market conditions during 2001 were difficult for A.O. Smith," O'Toole said. "We have taken the actions necessary to adjust our cost base to current sales volumes.

"We will be in a strong position when markets recover to more normal levels. This positioning, coupled with the impact of the State Industries acquisition and the new accounting standards eliminating goodwill amortization will contribute to earnings growth in 2002. This leads us to reiterate our earlier forecast of earnings in the range of \$1.40 to \$1.60 per share in 2002. We believe first and second quarter earnings will show modest improvement over 2001, with favorable comparisons accelerating in the second half of the year."

A.O. Smith will broadcast a live conference call beginning at 10:00 a.m. (eastern time) today. The call can be heard on the company's web site, <http://www.aosmith.com> . An audio replay of the call will be available on the company's website after the live event.

Forward-looking statements

Certain statements in this release are "forward-looking statements." These forward-looking statements can generally be identified as such because the context of the statement includes words such as the company "believes," "anticipates," "estimates," "expects," "projects," "forecasts" 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. 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, the successful integration of State Industries, general economic conditions, cost stability, and competitive pressures.

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 AND SUBSIDIARIES
(condensed consolidated financial statements -
\$000 omitted except per share data)

Statement of Earnings

	Three Months ended		Year ended	
	December 31		December 31	
Continuing Operations	2001	2000	2001	2000
Net Sales				
Electric Motor Technologies	\$168,303	\$185,050	\$802,721	\$902,419
Water Systems Technologies	87,238	86,220	348,435	345,526
	255,541	271,270	1,151,156	1,247,945
Costs and Expenses				
Cost of products sold	213,216	224,319	948,815	999,821
Selling, general and administrative	35,905	36,113	145,742	153,695
Interest expense	3,551	5,343	16,418	22,102
Amortization of intangibles	1,756	1,734	6,956	6,932
Restructuring and other charges	9,368	--	9,368	--
Other (income) expense	(340)	(247)	1,371	307
Tax provision (benefit)	(2,809)	1,443	7,984	23,432
Total costs and expenses	260,647	268,705	1,136,654	1,206,289
Earnings (Loss) from Continuing Operations	(5,106)	2,565	14,502	41,656
Discontinued operations less related income tax benefit - \$9,024 & \$7,772	--	(13,820)	--	(11,903)
Net Earnings (Loss)	\$(5,106)	\$(11,255)	\$14,502	\$29,753
Net Earnings (Loss) Per Share of Common Stock (Diluted)				
Continuing Operations	\$(0.21)	\$0.11	\$0.61	\$1.76
Discontinued Operations	\$--	\$(0.58)	\$--	\$(0.50)
Net Earnings (Loss)	\$(0.21)	\$(0.47)	\$0.61	\$1.26
Average Common Shares Outstanding (000's omitted)	23,990	23,705	23,915	23,691

A.O. SMITH CORPORATION
Balance Sheet

	December 31 2001	December 31 2000
ASSETS:		
Cash and cash equivalents	\$20,759	\$15,287
Receivables	209,871	169,117
Inventories	194,706	169,630
Deferred income taxes	22,403	12,907
Other current assets	28,039	7,789
Net current assets-discontinued operations	1,796	22,651
Total Current Assets	477,574	397,381
Net property, plant and equipment	355,298	282,835
Goodwill and other intangibles	301,924	244,821
Other assets	159,127	122,338
Net long-term assets - discontinued operations	--	17,493
Total Assets	\$1,293,923	\$1,064,868

LIABILITIES AND STOCKHOLDERS' EQUITY:

Notes payable	\$3,280	\$--
Trade payables	131,073	91,780
Accrued payroll and benefits	29,525	27,388
Product warranty	19,470	11,574
Income taxes	887	1,695
Long-term debt due within one year	13,272	11,129
Other current liabilities	58,443	26,865
Total Current Liabilities	255,950	170,431
Long-term debt	390,385	316,372
Other liabilities	133,556	61,856
Deferred income taxes	62,154	67,814
Stockholders' equity	451,878	448,395
Total Liabilities and Stockholders' Equity	\$1,293,923	\$1,064,868

A.O. SMITH CORPORATION
STATEMENT OF CASH FLOWS

	Year ended December 31	
	2001	2000
Operating Activities		
Continuing		
Net earnings	\$14,502	\$41,656
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation & amortization	47,076	45,059
Net change in current assets and		

liabilities	11,175	3,563
Net change in noncurrent assets and liabilities	(22,667)	(15,343)
Other	(258)	241
Cash Provided by Operating Activities	49,828	75,176
Investing Activities		
Capital expenditures	(35,318)	(40,516)
Acquisitions	(117,988)	--
Cash Used in Investing Activities	(153,306)	(40,516)
Cash Flow before Financing	(103,478)	34,660
Financing Activities		
Debt incurred	90,565	--
Debt retired	(11,129)	(33,379)
Other stock transactions	1,407	816
Dividends paid	(12,319)	(11,720)
Cash Provided by (Used in) Financing Activities	68,524	(44,283)
Discontinued		
Cash Provided by Discontinued Operations	40,426	10,149
Net increase in cash and cash equivalents	5,472	526
Cash and cash equivalents - beginning of period	15,287	14,761
Cash and Cash Equivalents - End of Period	\$20,759	\$15,287