



A. O. Smith Announces Strong First Quarter Performance Of \$.50 Per Share Earnings; Improves Full-Year Earnings Forecast

Milwaukee, Wis.—Continued strong performance by its Water Systems business and cost reductions at its Electrical Products unit enabled A. O. Smith Corporation (AOS-NYSE, SMCA-AMEX) to earn \$12.1 million or \$.50 per share in the first quarter of 2002.

Sales in the first quarter, ended March 31, were \$371.9 million, an increase of \$53.7 million or 16.9 percent over sales of \$318.2 million in the first quarter of 2001. An \$83.7 million increase in year-over-year sales for the company's Water Systems segment more than offset a \$30.0 million decline in sales for the Electrical Products segment.

The significant increase in first-quarter sales for Water Systems was attributed to the \$84.1 million of sales associated with State Industries, which was acquired on Dec. 28, 2001. The decline in Electrical Products sales reflected the continued softness in the electric motor market.

First quarter 2002 net earnings were \$12.1 million or \$3.6 million higher than net earnings of \$8.5 million in the first quarter of 2001. On a per-share basis, net earnings were \$.50, compared with \$.36 in the first quarter of 2001. The company attributed the increased earnings to improved operating earnings in its Water Systems segment, the elimination of goodwill amortization of \$1.6 million, and a decrease in interest expense of \$0.6 million. The increased operating earnings for Water Systems were due to additional volume from State Industries and benefits of the State integration.

"We significantly improved our earnings as a result of the acquisition of State Industries and cost reduction initiatives, despite an absence of growth in our served markets," Robert J. O'Toole, chairman and chief executive officer, observed. "We made very good progress during the quarter integrating the State operations into our existing water heater business, and this also contributed to our improved earnings performance."

"Electrical Products, although still experiencing weak demand in its major motor markets, began to see the positive impact of our cost reduction programs, as reflected by our improved operating margins," O'Toole continued. "We are confident the improving cost trend will continue as 2002 progresses."

Water Systems

First quarter sales for the Water Systems segment were \$175.7 million, an increase of \$83.7 million over first quarter 2001 sales of \$92.0 million. First-quarter 2002 sales included \$84.1 million of sales associated with State Industries, which was acquired on Dec. 28, 2001.

First quarter operating earnings for Water Systems were \$13.6 million, including \$3.8 million of earnings associated with the State Industries acquisition. The net \$9.8 million of operating earnings for the base water systems business compared with first-quarter 2001 operating earnings for the segment of \$9.9 million and included a \$1.7 million non-recurring charge associated with the consolidation of Water Systems' management staff.

Electrical Products

First quarter 2002 sales for Electrical Products were \$196.2 million, a decrease of \$30.0 million or 13.2 percent from first-quarter 2001 sales of \$226.2 million.

First-quarter operating earnings for the Electrical Products segment were \$15.1 million or \$0.5 million less than the \$15.6 million of operating earnings for the segment in the first quarter of 2001 as adjusted to exclude \$1.6 million of goodwill amortization. Notwithstanding this decrease in operating earnings, operating margins improved from 6.9 percent to 7.7 percent. The favorable trend in year-over-year operating margin for Electrical Products was the result of cost reduction activities, including those announced in the fourth quarter of 2001.

Outlook

"Our previously issued forecast for 2002 called for earnings in the range of \$1.40 to \$1.60," O'Toole commented. "Although we continue to be cautious about the timing and magnitude of the market recovery in 2002, we have improved our earnings projection to a range of \$1.60 to \$1.70 per share. This is based on the early and projected continued success of our cost-reduction programs and the integration of State Industries and is based on share levels currently outstanding. On the same bases, we expect second quarter earnings per share to be similar to first quarter levels."

The company's earnings expectations for 2002 also are based on a number of other assumptions, including: no declines in consumer spending or weakening of the economy compared with current levels; normal U. S. weather conditions during the spring and summer of 2002; and no material price changes for raw materials, including steel, aluminum, and copper.

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, 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. All statements, other than statements of historical facts, including statements made in the "Outlook" section of this press release, statements regarding our future financial position, business strategy, budgets, projected sales, costs and earnings, and plans and objectives for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking 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 our electric motor and water products markets; our inability to timely and properly integrate our acquisition of State Industries; our inability to implement cost-reduction programs; adverse changes in general economic conditions; competitive pressures on our businesses; and the potential that assumptions on which we based our expectations are inaccurate or will prove to be incorrect.

The forward-looking statements included in this press release are made only as of the date of this release, and we undertake no obligation to update publicly 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 expressly 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.

A. O. SMITH CORPORATION AND SUBSIDIARIES

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

Statement of Earnings

	Three Months ended	
	March 31	
	2002	2001
Electrical Products	\$ 196,234	\$ 226,253
Water Systems	175,693	91,982
Net Sales	<u>371,927</u>	<u>318,235</u>
Cost of products sold	<u>295,026</u>	<u>259,440</u>
Gross profit	76,901	58,795
Selling, general and administrative	53,204	38,123
Interest expense	4,177	4,801
Amortization of intangibles	81	1,733
Other expense	<u>789</u>	<u>599</u>
	18,650	13,539
Tax provision	<u>6,528</u>	<u>5,010</u>
Net Earnings	\$ <u>12,122</u>	\$ <u>8,529</u>
Net Earnings Per Share of Common Stock (Diluted)	\$ <u>0.50</u>	\$ <u>0.36</u>
Average Common Shares Outstanding (000's omitted)	24,317	23,828

A. O. SMITH CORPORATION
Balance Sheet

	March 31 <u>2002</u>	December 31 <u>2001</u>
ASSETS:		
Cash and cash equivalents	\$ 21,851	\$ 20,759
Receivables	237,690	209,871
Inventories	192,578	194,706
Deferred income taxes	18,878	22,403
Other current assets	16,456	28,039
Net current assets-discontinued operations	<u>-</u>	<u>1,796</u>
Total Current Assets	487,453	477,574
Net property, plant and equipment	348,987	355,298
Goodwill and other intangibles	302,203	301,924
Other assets	<u>166,579</u>	<u>159,127</u>
Total Assets	\$ <u>1,305,222</u>	\$ <u>1,293,923</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Notes payable	\$ -	\$ 3,280
Trade payables	138,191	131,073
Accrued payroll and benefits	31,464	29,525
Product warranty	19,155	19,470
Income taxes	2,419	887
Long-term debt due within one year	13,272	13,272
Other current liabilities	55,949	58,443
Net current liabilities-discontinued operations	<u>2,902</u>	<u>-</u>
Total Current Liabilities	263,352	255,950
Long-term debt	378,867	390,385
Other liabilities	130,277	133,556
Deferred income taxes	66,577	62,154
Stockholders' equity	<u>466,149</u>	<u>451,878</u>
Total Liabilities and Stockholders' Equity	\$ <u>1,305,222</u>	\$ <u>1,293,923</u>

A. O. SMITH CORPORATION
STATEMENT OF CASH FLOWS

	Three Months ended	
	March 31	
	<u>2002</u>	<u>2001</u>
Operating Activities		
Continuing		
Net earnings	\$ 12,122	\$ 8,529
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation & amortization	12,297	11,411
Net change in current assets and liabilities	3,024	(27,610)
Net change in noncurrent assets and liabilities	(5,516)	(5,832)
Other	927	218
Cash Provided by (Used in) Operating Activities	<u>22,854</u>	<u>(13,284)</u>
Investing Activities		
Capital expenditures	(7,080)	(9,520)
Acquisitions	(2,050)	-
Cash Used in Investing Activities	<u>(9,130)</u>	<u>(9,520)</u>
Cash Flow before Financing	13,724	(22,804)
Financing Activities		
Debt retired	(14,798)	(20,666)
Other stock transactions	815	101
Dividends paid	(3,094)	(3,061)
Cash Used in Financing Activities	<u>(17,077)</u>	<u>(23,626)</u>
Discontinued		
Cash Provided by Discontinued Operations	<u>4,445</u>	<u>44,201</u>
Net increase / (decrease) in cash and cash equivalents	1,092	(2,229)
Cash and cash equivalents - beginning of period	20,759	15,287
Cash and Cash Equivalents - End of Period	<u>\$ 21,851</u>	<u>\$ 13,058</u>