



A. O. Smith announces second quarter earnings of \$.58 per share

Milwaukee, Wis.--A. O. Smith Corporation (AOS-NYSE) today announced second quarter earnings of \$17.3 million or \$.58 per share, which included a six cents per share gain from non-recurring items. The company earned \$19.8 million or \$.67 per share in the second quarter of 2003.

Revenues for the quarter ended June 30 increased approximately five percent to \$437.3 million compared with revenues of \$417.6 million for the same period last year.

"Both of our operating units continued to face cost pressure during the quarter brought on by significant increases in the price of steel and higher freight cost," Robert J. O'Toole, chairman and chief executive officer, observed.

"In addition, our Water Systems unit continued to experience manufacturing inefficiencies and logistics cost increases that were caused by multiple conversion programs," O'Toole continued.

"The company has implemented several price increases during the last four months, and these increases are now taking effect and mitigating the adverse impact of the higher steel and freight costs. We will continue to closely monitor steel and other costs and initiate appropriate pricing actions as necessary."

For the first six months of 2004, A. O. Smith earned \$28.0 million or \$.94 per share compared with earnings of \$33.5 million or \$1.13 per share for the same period in 2003. Six-month revenues were \$853.8 million compared with sales of \$805.5 million for the first six months of 2003.

Non-recurring items during the quarter amounted to a \$2.5 million pre-tax gain. The items consisted of a favorable resolution of litigation related to pre-acquisition State Industries' Duron product, partially offset by the write-off of capitalized software at Electrical Products.

Corporate expenses during the quarter were approximately \$2.7 million higher than last year, primarily due to an insurance settlement and interest on a tax refund in 2003.

Electrical Products

Electric motor sales were \$228 million in the second quarter, the same as last year. Sales increased in all served OEM markets except the heating, ventilation, and air conditioning (HVAC) segment, which declined approximately 10 percent due primarily to the loss of a sales contract by an OEM customer. Aftermarket sales were flat during the quarter.

Operating earnings of \$17.4 million were lower than the same period last year. Higher costs for steel and freight more than offset cost savings related to the company's repositioning program.

Water Systems

Water Systems' second quarter sales of \$210 million were 10 percent higher than sales in the second quarter of 2003. Improved revenue for residential water heaters due to the launch of new products to address regulatory standards changes and higher sales in China contributed to the sales increase. Residential unit volume was approximately 10 percent lower than last year's second quarter due to the significant pre-buy of gas water heaters last year in anticipation of the introduction of flammable vapor ignition resistant product.

Operating profit of \$18.7 million was five percent higher than the second quarter of last year. Higher operating profit in China, the new product introductions during the second half of 2003 and first half of this year, and the gain related to the resolution of litigation were offset by the decline in residential unit volume, manufacturing inefficiencies and higher logistics costs. Similar to the first quarter, manufacturing inefficiencies and higher logistics costs resulted from programs implemented to meet new efficiency standards, standardize A. O. Smith and State residential product lines, relocate production between the Ashland City, Tenn., and McBee, S. C., plants, and the installation of a new information management system.

Company discusses outlook

"Although we made less progress than expected at Water Systems during the quarter, we believe efficiency levels will improve

as the year proceeds. Price increases are now beginning to offset higher steel costs at both Electrical Products and Water Systems. We will continue to monitor material and freight costs closely to assure that pricing remains in line," O'Toole said.

"We are maintaining our full-year projection of \$1.90 to \$2.00 per share and forecast that earnings will be in a range of \$.42 to \$.46 per share for the third quarter."

A. O. Smith Corporation will broadcast a live conference call today at 10:00 a.m. (Eastern Time). 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 generate the synergistic cost savings from 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 attributed to the company, or persons acting on its behalf, are qualified entirely 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. The company employs approximately 17,000 people worldwide.

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