



Repositioning for Global Growth

Forward Looking Statements

This presentation 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,” “guidance”, 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. Actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following: the failure to receive, on a timely basis or otherwise, the required approvals from government or regulatory agencies (including the terms of such approvals); and the risk that a condition to closing of the sale may not be satisfied. Factors that could cause such a variance include the following: significant volatility in raw material prices; competitive pressures on the company's businesses; inability to implement pricing actions; negative impact of future pension contributions on the company's cash flow; instability in the company's electric motor and water products markets; further weakening in housing construction; further weakening in commercial construction; timing of any recoveries in housing or commercial construction; a slowdown in the Chinese economy; further adverse changes in customer liquidity and general economic and capital market conditions; the impact of acquisition accounting or Non-GAAP financial measures on the company's financial statements; difficulties integrating the water treatment acquisition or the North American tankless water heater joint venture; difficulties in realizing future growth and profit expectations for the water treatment acquisition or the North American tankless water heater venture and potential negative impacts on the company that the flooding of its Ashland City, Tenn., water heater manufacturing plant may have.

Forward-looking statements included in this press release are made only as of the date of this presentation, 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. This presentation contains certain non-GAAP financial measures as that term is defined by the SEC. Non-GAAP financial measures are generally identified by “Adjusted” (Adj.), “Non-GAAP” or “Before Restructuring”.



Two – Step Transformation

Step 1: Sale of Electric Motor Business to Regal Beloit

Step 2: Build a Globally Diversified Company





**Step 1: Sale of Motor Segment
to Regal Beloit**

Why Sell? Why Now?

- Motor industry continues to consolidate manifesting in several interested global buyers presenting compelling offers
- Remaking of profitable motor business complete
- Regal Beloit and A. O. Smith motor combination provides scale and new energy efficient technologies to succeed in globally competitive industry
- Proceeds fund company transformation through high-growth, high-margin acquisitions



Transaction Highlights

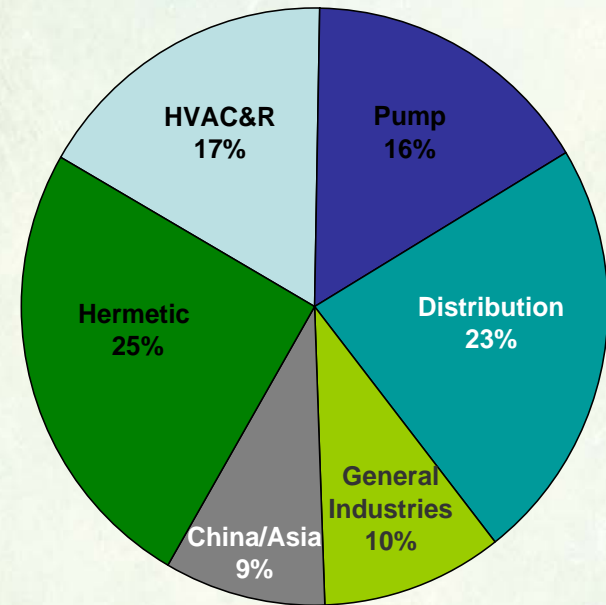
Regal Beloit made the best offer for our shareholders, customers and employees in a competitive bid process with several contenders

- Total consideration: \$875 million (\$700 million in cash and approximately \$175 million in stock)
- Over 8 times 2010E EBITDA
- Approved by both boards of directors
- Closing expected in first half of 2011



AOS Motor Segment

- \$690 million in revenue (2010 E)
- End markets based on 2009 revenue:
- 7,800 employees
- 20 manufacturing plants
- Headquarters in Tipp City, OH



Use of Proceeds

Cash Proceeds	\$ 700 million
Pay down Debt	\$(145) million
Taxes	<u>\$(165) million</u>
Cash Remaining	\$ 390 million
Stock Consideration (approximately)	\$ 175 million





Step 2: Build a Globally Diversified Company

Acquisition Strategy: Leverage Core Competencies

World class global manufacturing and engineering platform

Leading distribution relationships in North America and Asia

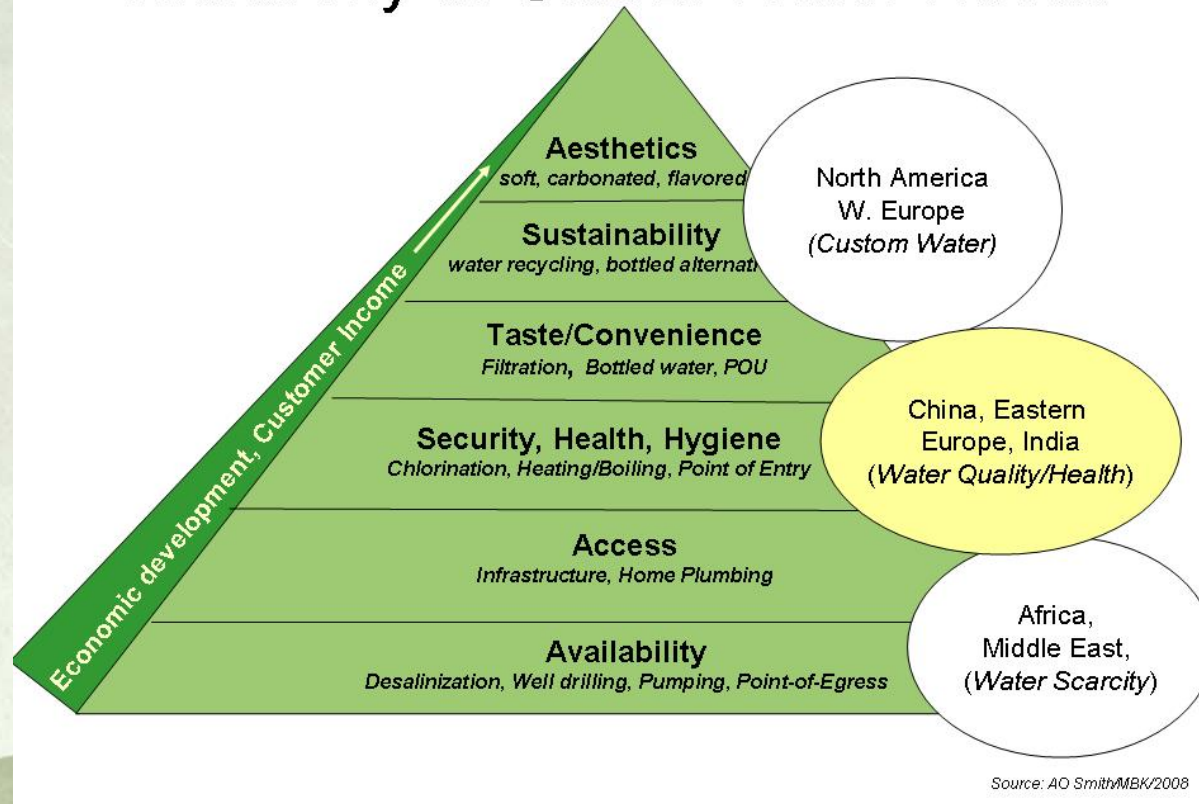
Premium brand equity in Asia

- Acquisitions will achieve ROIC hurdle within two years



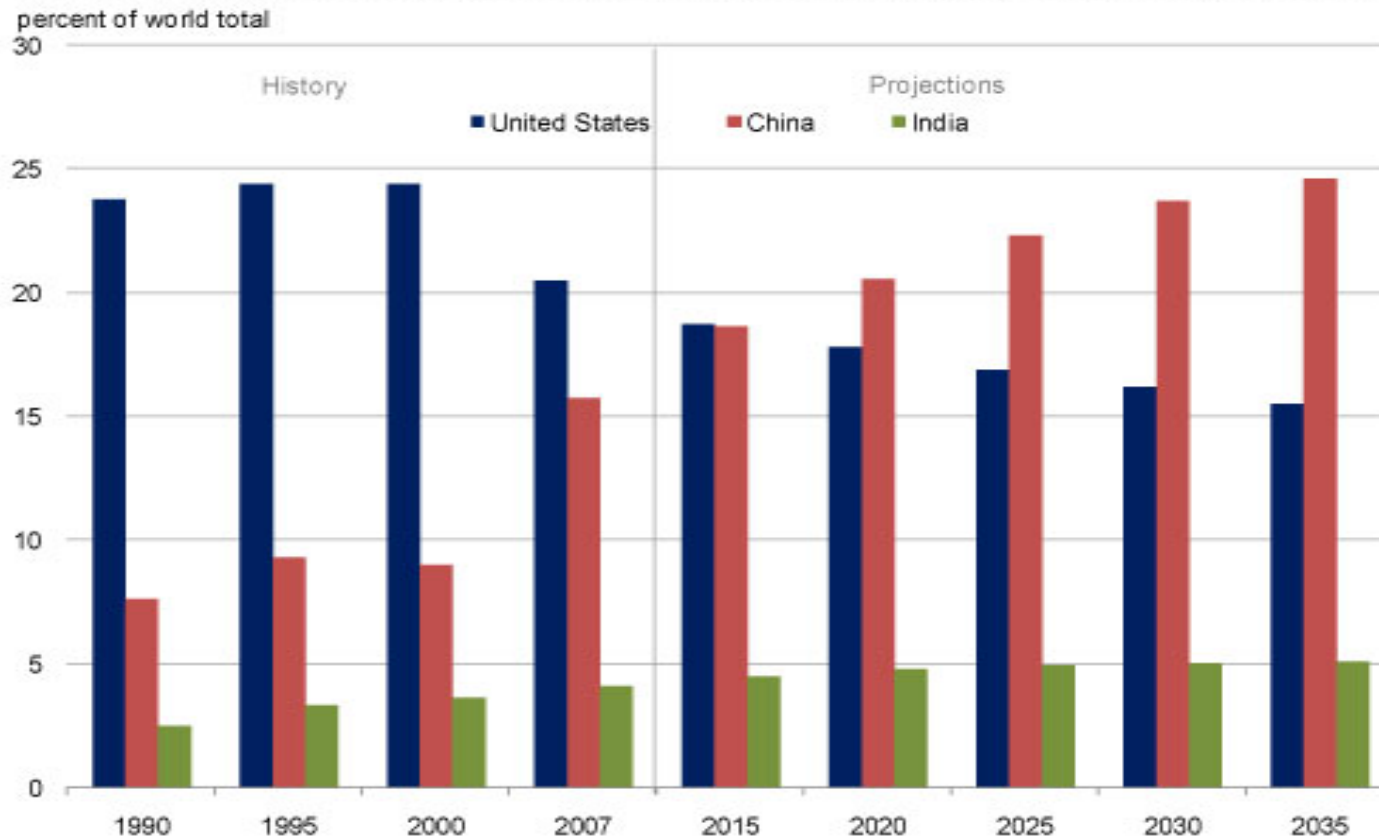
Mega Trend One

Hierarchy of Global Water Needs



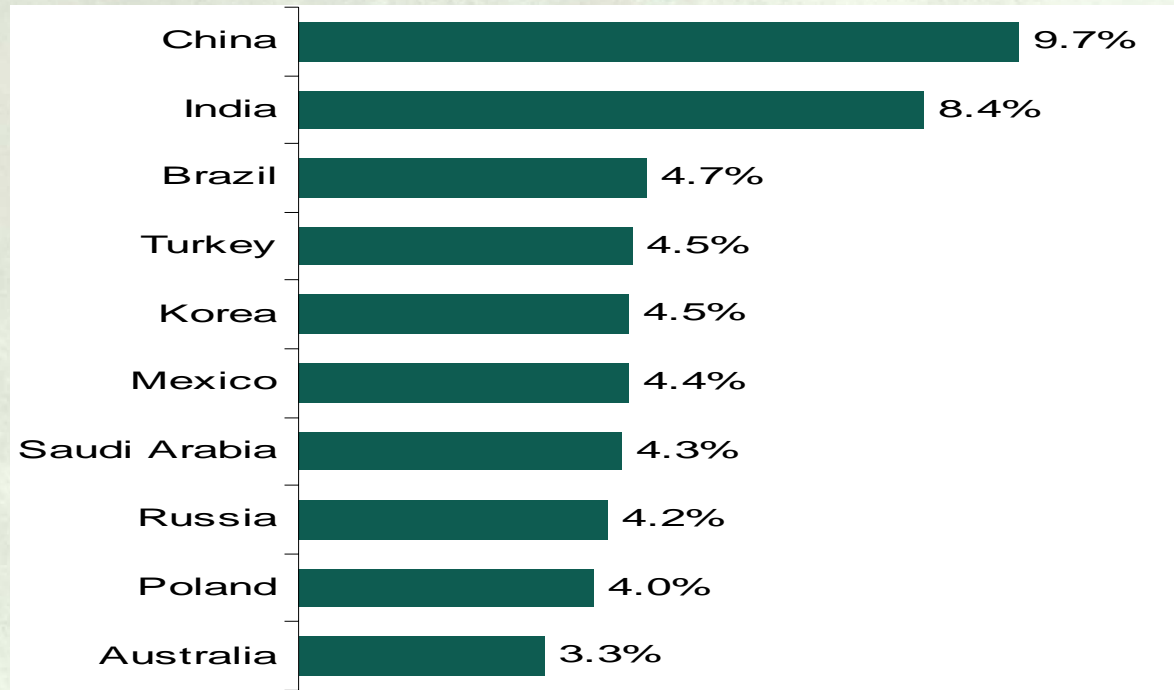
Mega Trend Two

Figure 14. Shares of world energy consumption in the United States, China, and India, 1990-2035



Mega Trend Three

Average Annual Forecasted 2010 – 2015 GDP Growth



Source: US EIA website, International Monetary Fund, World Economic Outlook Database, October 2010





Answers to your Questions