



June 16, 2010

***To Our Valued A.O. Smith Distributors:***

This afternoon, A.O. Smith Corporation and Takagi Industrial Co., Ltd. of Fuji City, Shizuoka, Japan, announced a joint venture to market and manufacture tankless water heaters in North America. *(See attached Press Release dated June 16, 2010).*

We are very excited about the opportunities created by combining these two well established businesses and the added value that we can provide you, our customers. This strengthens our position with a world class, full high efficiency product offering in the tankless market. The joint venture gives us an exclusive and permanent relationship, not just a supply agreement. We are committed to our mutual growth in the tankless segment of our business.

The greatly expanded scope of the business and additional people and resources that result from this joint venture will enable us to maintain our leadership position in this competitive, rapidly changing industry. We remain committed to this industry and, more importantly, to your success.

All of us at A.O. Smith appreciate your continued support and look forward to working with you as we move forward.

Best Regards,

**A.O. Smith Water Products Company**

A handwritten signature in black ink, appearing to read "James Margoni".

James R. Margoni  
Sr. Vice President Wholesale Sales

*(Attachment)*



# News Release

A. O. Smith Corporation PO Box 245008 Milwaukee, WI 53224-9508 414-359-4100 NYSE:AOS

**FOR IMMEDIATE RELEASE**

**Media Contact:**  
Mark A. Petrarca  
414-359-4100

**Analyst/Investor Contact:**  
Patricia K. Ackerman  
414-359-4130

**June 16, 2010**

## **A. O. Smith enters into a tankless water heater joint venture with Takagi**

**Milwaukee, Wis.**—A. O. Smith Corporation (NYSE:AOS) and Takagi Industrial Co. Ltd. of Fuji-city, Shizuoka, Japan, today announced that they are establishing a joint venture to market and manufacture tankless water heaters in North America. As part of the joint venture, A. O. Smith will take over the management of Takagi's existing North American sales and distribution organization, maintaining Takagi's North American headquarters in Irvine, Calif. The companies expect the transaction to close in the third quarter.

“This venture is an important investment by A. O. Smith that will further expand our offering of high-efficiency water heating products,” Ajita G. Rajendra, president of A. O. Smith Water Products Company, said. “It represents a rare opportunity to combine Takagi's well-known brand and world class tankless technology with the strong brands, customer relationships, and extensive distribution of A. O. Smith.”

Through the joint venture, A. O. Smith will offer a full line of tankless gas water heaters under its own brands in association with the Takagi brand and will assume responsibility for the Takagi brand in the U. S. and Canada.

Takagi currently manufactures a full line of gas tankless water heater models in Japan for residential and commercial applications including the recently released “second generation” 92 percent efficient T-H2 model designed for residential or light commercial applications. Upon achieving an appropriate volume threshold, the joint venture will bring manufacturing jobs to the United States and establish a production operation to support the growing needs of the business.

Privately held Takagi is one of Japan's leading manufacturers of tankless water heating products and was the first to begin marketing tankless water heaters in the U. S. in 1994.

A. O. Smith Water Products Company is North America's largest manufacturer of residential and commercial water heating equipment.

A. O. Smith Corporation, with 2009 sales of \$2.0 billion, is a global leader applying innovative technology and energy-efficient solutions to products marketed worldwide. The company is one of the world's leading manufacturers of residential and commercial water heating equipment, offering a comprehensive product line featuring the best-known brands in North America and China. A. O. Smith is also one of the largest manufacturers of electric motors for residential and commercial applications in North America.



## **Transitional Issues**

### **What happens to the Takagi USA Organization?**

As part of the joint venture agreement, A. O. Smith Water Products Company will purchase all of the Takagi USA assets. All Takagi USA employees will become part of the A. O. Smith Water Products Organization.

### **What will happen to the Takagi Sales Organization?**

The Takagi Sales organization will become part of the A. O. Smith team and will continue to market, promote, sell, and support the Takagi brand at all levels.

### **What will happen to the Takagi Management Team?**

Mr. Mochizuki (Takagi USA, President) and Mr. Ichikawa (Takagi USA, VP) will transition back to Takagi Japan. All other employees will remain in place and report to A. O. Smith Water Products Company.

### **Will the Takagi Brand Disappear in the Market?**

The Takagi brand will **NOT** disappear in the market. With the additional resources in place to support the brand, our expectation is to see significant market share improvement of the Takagi brand in the market place.

### **Who will be my Independent Representative?**

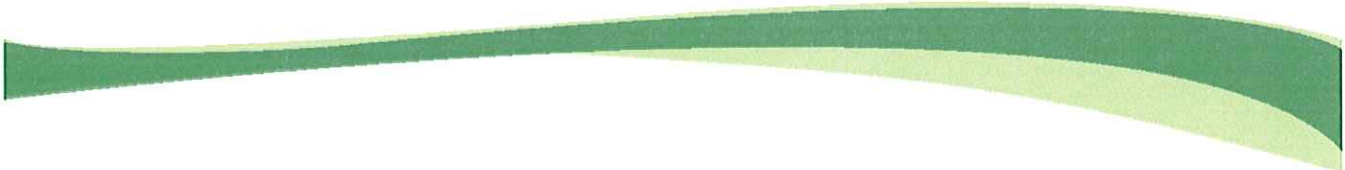
During the first month of transition, A. O. Smith Water Products Company will review and select the best representative in the market to support our efforts to grow the Takagi brand.

### **Where do I send my P.O. for the Takagi Branded Product?**

Operationally it will be business as usual. Orders for Takagi branded products will be sent to the Irvine Sales Office.

### **Will the current Takagi programs (Price and Rebate) change?**

There will be NO change to the Takagi programs in the market. However, A. O. Smith Water Products Company will review programs and make changes where required to maintain a competitive posture in the market place.





**Who do I call for Takagi Customer Service and Technical Support?**

Operationally it will be business as usual. All service and support activities will remain in the Irvine Sales Office.

**Who do we call for Takagi Warranty related Issues?**

Operationally it will be business as usual. All warranty related issues will be handled by the team in the Irvine Sales Office.

**Brand Management**

**When will the New Takagi Co-Branded products be available?**

Co-branded products (A. O. Smith by Takagi, State by Takagi, and American by Takagi) will be available for shipment on or before November 15<sup>th</sup>, 2010. The A. O. Smith Water Products Company will keep you up-to-date as we get closer to the launch of co-branded products.

**Who will represent the Tankless products?**

Co-branded products will be represented by our current brand representatives.

**Where will Tankless product be stocked?**

Co-branded product will be stocked in Ashland City.

**Will the product be different?**

There will be no product differentiation other than brand labels. Brand differentiation will be based on selling efforts, infield technical support and training activities arranged by our independent sales network.

**Can a distributor order and sell the Takagi branded solution and a Co-branded product?**

It is our intention to only make available one brand to a wholesale operation. However, we will review opportunities market by market.





**Will the Takagi product be more or less expensive than our current tankless product?**

Our Tankless products will be competitively priced in the market.

**How long will A. O. Smith offer the current tankless product?**

A. O. Smith Water Products has inventory of our current product line to support customer requirements throughout the transition period.

