

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

---

**FORM 10-Q**

---

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2016.

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-475

---

**A. O. Smith Corporation**

(Exact name of registrant as specified in its charter)

---

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**11270 West Park Place, Milwaukee, Wisconsin**  
(Address of principal executive office)

**39-0619790**  
(I.R.S. Employer  
Identification No.)

**53224-9508**  
(Zip Code)

**(414)359-4000**  
(Registrant's telephone number, including area code)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated Filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.)  Yes  No

Class A Common Stock Outstanding as of May 3, 2016 — 13,115,988 shares

Common Stock Outstanding as of May 3, 2016 — 74,428,316 shares

---

---

Index

**A. O. Smith Corporation**

	<u>Page</u>
<b>Part I. <a href="#">FINANCIAL INFORMATION</a></b>	
<a href="#">Condensed Consolidated Statements of Earnings - Three Months Ended March 31, 2016 and 2015</a>	3
<a href="#">Condensed Consolidated Statements of Comprehensive Earnings - Three Months Ended March 31, 2016 and 2015</a>	3
<a href="#">Condensed Consolidated Balance Sheets - March 31, 2016 and December 31, 2015</a>	4
<a href="#">Condensed Consolidated Statements of Cash Flows - Three Months Ended March 31, 2016 and 2015</a>	5
<a href="#">Notes to Condensed Consolidated Financial Statements - March 31, 2016</a>	6-15
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	16-20
Item 3. <a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	20
Item 4. <a href="#">Controls and Procedures</a>	20
<b>Part II. <a href="#">OTHER INFORMATION</a></b>	
Item 1. <a href="#">Legal Proceedings</a>	22
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	22
Item 5. <a href="#">Other Information</a>	22
Item 6. <a href="#">Exhibits</a>	22
<a href="#">Signatures</a>	23
<a href="#">Items to Exhibits</a>	24

[Table of Contents](#)**PART I - FINANCIAL INFORMATION****ITEM 1 - FINANCIAL STATEMENTS**

A. O. SMITH CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
(dollars in millions, except for per share data)  
(unaudited)

	Three Months Ended March 31,	
	2016	2015
Net sales	\$ 636.9	\$ 618.5
Cost of products sold	374.2	389.3
Gross profit	262.7	229.2
Selling, general and administrative expenses	159.4	147.2
Interest expense	1.7	1.9
Other income	(2.0)	(2.7)
Earnings before provision for income taxes	103.6	82.8
Provision for income taxes	30.1	24.4
Net Earnings	<u>\$ 73.5</u>	<u>\$ 58.4</u>
Net Earnings Per Share of Common Stock	<u>\$ 0.84</u>	<u>\$ 0.65</u>
Diluted Net Earnings Per Share of Common Stock	<u>\$ 0.83</u>	<u>\$ 0.65</u>
Dividends Per Share of Common Stock	<u>\$ 0.24</u>	<u>\$ 0.19</u>

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS  
(dollars in millions)  
(unaudited)

	Three Months Ended March 31,	
	2016	2015
Net earnings	\$ 73.5	\$ 58.4
Other comprehensive earnings (loss)		
Foreign currency translation adjustments	8.6	(9.3)
Unrealized net (loss) gain on cash flow derivative instruments, less related income tax benefit (provision) of \$1.2 in 2016 and \$(0.8) in 2015	(2.0)	1.2
Adjustment to pension liability, less related income tax provision of \$(1.5) in 2016 and \$(1.8) in 2015	2.5	2.5
Comprehensive Earnings	<u>\$ 82.6</u>	<u>\$ 52.8</u>

See accompanying notes to unaudited condensed consolidated financial statements.

[Table of Contents](#)**PART I - FINANCIAL INFORMATION****ITEM 1 - FINANCIAL STATEMENTS**

A. O. SMITH CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(dollars in millions)

	(unaudited) March 31, 2016	December 31, 2015
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 305.5	\$ 323.6
Marketable securities	335.3	321.6
Receivables	506.9	501.4
Inventories	230.2	222.9
Other current assets	48.0	45.9
<b>Total Current Assets</b>	<b>1,425.9</b>	<b>1,415.4</b>
Property, plant and equipment	888.3	866.8
Less accumulated depreciation	(437.7)	(424.1)
Net property, plant and equipment	450.6	442.7
Goodwill	423.4	420.9
Other intangibles	288.5	291.0
Other assets	62.2	59.2
<b>Total Assets</b>	<b>\$ 2,650.6</b>	<b>\$ 2,629.2</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade payables	\$ 389.0	\$ 424.9
Accrued payroll and benefits	55.5	81.6
Accrued liabilities	99.1	90.1
Product warranties	45.2	43.7
Debt due within one year	13.2	12.9
<b>Total Current Liabilities</b>	<b>602.0</b>	<b>653.2</b>
Long-term debt	274.1	236.1
Pension liabilities	128.4	134.2
Other liabilities	167.6	163.4
<b>Total Liabilities</b>	<b>1,172.1</b>	<b>1,186.9</b>
<b>Stockholders' Equity</b>		
Class A Common Stock, \$5 par value: authorized 14,000,000 shares; issued 13,185,178 and 13,186,698	65.9	65.9
Common Stock, \$1 par value: authorized 120,000,000 shares; issued 82,168,618 and 82,167,098	82.2	82.2
Capital in excess of par value	619.6	617.4
Retained earnings	1,403.0	1,350.7
Accumulated other comprehensive loss	(304.3)	(313.4)
Treasury stock at cost	(387.9)	(360.5)
<b>Total Stockholders' Equity</b>	<b>1,478.5</b>	<b>1,442.3</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 2,650.6</b>	<b>\$ 2,629.2</b>

See accompanying notes to unaudited condensed consolidated financial statements

[Table of Contents](#)**PART I - FINANCIAL INFORMATION****ITEM 1 - FINANCIAL STATEMENTS**

A. O. SMITH CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(dollars in millions)  
(unaudited)

	<u>Three Months Ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Net earnings	\$ 73.5	\$ 58.4
Adjustments to reconcile net earnings to cash provided by (used in) operating activities:		
Depreciation and amortization	16.2	15.6
Pension income	(1.7)	—
Stock based compensation expense	5.1	5.7
Loss on disposal of assets	—	0.1
Net changes in operating assets and liabilities:		
Current assets and liabilities	(69.7)	(68.0)
Noncurrent assets and liabilities	3.3	(12.0)
<b>Cash Provided by (Used in) Operating Activities - continuing operations</b>	<u>26.7</u>	<u>(0.2)</u>
<b>Cash Used in Operating Activities - discontinued operations</b>	<u>(0.2)</u>	<u>(0.2)</u>
<b>Cash Provided by (Used in) Operating Activities</b>	<u>26.5</u>	<u>(0.4)</u>
<b>Investing Activities</b>		
Capital expenditures	(19.4)	(14.9)
Investments in marketable securities	(143.5)	(121.9)
Net proceeds from sale of marketable securities	132.4	54.0
<b>Cash Used in Investing Activities</b>	<u>(30.5)</u>	<u>(82.8)</u>
<b>Financing Activities</b>		
Term debt incurred	—	75.0
Long-term debt incurred	37.4	6.9
Common stock repurchases	(30.5)	(20.7)
Net proceeds from stock option activity	0.2	3.8
Dividends paid	(21.2)	(17.1)
<b>Cash (Used In) Provided by Financing Activities</b>	<u>(14.1)</u>	<u>47.9</u>
Net decrease in cash and cash equivalents	(18.1)	(35.3)
Cash and cash equivalents - beginning of period	323.6	319.4
<b>Cash and Cash Equivalents - End of Period</b>	<u>\$ 305.5</u>	<u>\$ 284.1</u>

See accompanying notes to unaudited condensed consolidated financial statements

**PART I - FINANCIAL INFORMATION**

**ITEM 1 - FINANCIAL STATEMENTS**

**A. O. SMITH CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016**  
**(unaudited)**

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2016 are not necessarily indicative of the results expected for the full year. It is suggested that the accompanying condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 17, 2016.

*Recent Accounting Pronouncements*

In March 2016, the Financial Accounting Standards Board (FASB) amended Accounting Standard Codification (ASC) 718, *Compensation - Stock Compensation* (issued under Accounting Standards Update (ASU) 2016-09). This amendment simplifies several aspects of the accounting for share-based payment transactions. The amendment is effective for periods beginning January 1, 2017 and permitted early adoption. The Company adopted this amendment effective for the three months ended March 31, 2016.

The amendment requires the benefits or deficiencies of tax deductions in excess of or less than the recognized compensation cost to be recorded as income tax benefit or expense in the income statement in the period in which they occur. The amendment also eliminates previous guidance that required unrecognized future excess income tax benefits to be used to repurchase shares in the calculation of diluted shares which resulted in lower diluted shares outstanding than the calculation under the adopted guidance. The Company elected to apply this guidance prospectively. As such, in the first quarter of 2016, the Company recognized \$2.5 million of discrete income tax benefits associated with excess tax benefits on settled stock based compensation awards and the Company's diluted shares outstanding for the three months ended March 31, 2016 increased compared to the way it was calculated under previous guidance.

The amendment also requires that cash paid by an employer to a taxing authority when shares are directly withheld for employee income tax withholding purposes be classified as financing activities in the statements of cash flows. As required, the Company applied this guidance retrospectively in the presentation of the consolidated statements of cash flows for the periods beginning January 1, 2015 and, as a result, reclassified \$3 million of cash paid from operating activities to financing activities for the three months ended March 31, 2015.

In February 2016, the FASB amended ASC 842, *Leases* (issued under ASU 2016-02). This amendment requires the recognition of lease assets and lease liabilities on the balance sheet for most leasing arrangements currently classified as operating leases. This amendment is effective for periods beginning January 1, 2019 and early adoption is permitted. The Company is in the process of determining whether the adoption of ASU 2016-02 will have an impact on its consolidated balance sheets, statements of earnings or cash flows.

## [Table of Contents](#)

### 1. Basis of Presentation (continued)

In November 2015, the FASB amended ASC 740, *Income Taxes* (issued under ASU 2015-17). This amendment required that deferred tax assets and liabilities be classified as noncurrent in the balance sheet. The amendment was effective for periods beginning January 1, 2016 and allowed for either prospective adoption or retrospective adoption. The Company adopted ASU 2015-17 retrospectively and, as a result, has classified all deferred tax assets and liabilities as non-current in the Company's consolidated balance sheets for all periods presented. Current deferred taxes of \$40.5 million as of December 31, 2015 were reclassified to non-current deferred taxes in the Company's consolidated balance sheet.

In May 2014, the FASB issued ASC 606-10, *Revenue from Contracts with Customers* (issued under ASU 2014-09). ASC 601-10 will replace all existing revenue recognition guidance when effective. In July 2015, the FASB approved a one year deferral of the effective date to periods beginning January 1, 2018, with early application permitted as of January 1, 2017. Either full retrospective adoption or modified retrospective adoption is allowed under ASC 606-10. The Company is in the process of determining whether the adoption of ASC 606-10 will have an impact on its consolidated balance sheets, statements of earnings or cash flows.

### 2. Inventories

<u>(dollars in millions)</u>	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Finished products	\$ 92.7	\$ 85.7
Work in process	13.1	13.4
Raw materials	140.1	139.6
Inventories, at FIFO cost	245.9	238.7
LIFO reserve	(15.7)	(15.8)
Net inventory	<u>\$ 230.2</u>	<u>\$ 222.9</u>

### 3. Product Warranties

The Company offers warranties on the sales of certain of its products and records an accrual for the estimated future claims. The following table presents the Company's warranty liability activity.

<u>(dollars in millions)</u>	<u>2016</u>	<u>2015</u>
Balance at January 1	\$ 139.4	\$ 136.2
Expense	16.3	17.2
Claims settled	(15.1)	(16.2)
Balance at March 31	<u>\$ 140.6</u>	<u>\$ 137.2</u>

### 4. Long-Term Debt

The Company has a \$400 million multi-currency revolving credit agreement with a group of eight banks, which expires on December 12, 2017. The facility has an accordion provision which allows it to be increased up to \$500 million if certain conditions (including lender approval) are satisfied.

Borrowings under bank credit lines and commercial paper borrowings are supported by the \$400 million revolving credit agreement. As a result of the long-term nature of this facility, the Company's commercial paper and credit line borrowings are classified as long-term debt at March 31, 2016.

#### 4. Long-Term Debt (continued)

On January 15, 2015, the Company issued \$75 million in term notes to an insurance company. Principal payments commence in 2020 and the notes mature in 2030. The notes have an interest rate of 3.52 percent. The proceeds of the notes were used to pay down borrowings under the Company's revolving credit facility.

#### 5. Earnings per Share of Common Stock

The numerator for the calculation of basic and diluted earnings per share is net earnings. The following table sets forth the computation of basic and diluted weighted-average shares used in the earnings per share calculations:

	Three Months Ended March 31,	
	2016	2015
Denominator for basic earnings per share - weighted average shares	87,847,003	89,436,496
Effect of dilutive stock options, restricted stock and share units	1,058,358	730,429
Denominator for diluted earnings per share	<u>88,905,361</u>	<u>90,166,925</u>

#### 6. Stock Based Compensation

The Company adopted the A. O. Smith Combined Incentive Compensation Plan (the "Plan") effective January 1, 2007. The Plan was reapproved by stockholders on April 16, 2012. The Plan is a continuation of the A. O. Smith Combined Executive Incentive Compensation Plan which was originally approved by stockholders in 2002. The number of shares available for granting of options or share units at March 31, 2016 was 1,659,216. Upon stock option exercise or share unit vesting, shares are issued from treasury stock.

Total stock based compensation expense recognized in the three months ended March 31, 2016 and 2015 was \$5.1 million and \$5.7 million, respectively.

##### *Stock Options*

The stock options granted in the three months ended March 31, 2016 and 2015 have three year pro rata vesting from the date of grant. Stock options are issued at exercise prices equal to the fair value of Common Stock on the date of grant. For active employees, all options granted in 2016 and 2015 expire ten years after date of grant. The Company's stock options are expensed ratably over the three year vesting period; however, included in stock option expense for the three months ended March 31, 2016 and 2015 was expense associated with the accelerated vesting of stock option awards for certain employees who either are retirement eligible or become retirement eligible during the vesting period. Stock based compensation expense attributable to stock options in the three months ended March 31, 2016 and 2015 was \$2.5 million and \$2.6 million, respectively.



**6. Stock Based Compensation (continued)**

Changes in option awards, all of which relate to Common Stock, were as follows for the three months ended March 31, 2016:

	Weighted-Avg. Per Share Exercise Price	Number of Options	Average Remaining Contractual Life	Aggregate Intrinsic Value (dollars in millions)
Outstanding at January 1, 2016	\$ 36.05	1,326,779		
Granted	63.03	266,330		
Exercised	22.64	(73,815)		
Terminated	56.37	(648)		
Outstanding at March 31, 2016	41.43	<u>1,518,646</u>	7 years	\$ 53.0
Exercisable at March 31, 2016	31.87	<u>991,560</u>	6 years	\$ 44.1

The weighted-average fair value per option at the date of grant during the three months ended March 31, 2016 and 2015 using the Black-Scholes option-pricing model was \$15.77 and \$17.17, respectively. Assumptions were as follows:

	Three Months Ended March 31,	
	2016	2015
Expected life (years)	5.8	5.9
Risk-free interest rate	1.7%	2.0%
Dividend yield	1.3%	1.0%
Expected volatility	27.8%	29.3%

The expected life is based on historical exercise behavior and the projected exercises of unexercised stock options. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the date of grant for the respective expected life of the option. The expected dividend yield is based on the dividends paid in the preceding four quarters divided by the grant date market value of the Company's Common Stock. The expected volatility is based on the historical volatility of the Company's Common Stock.

*Stock Appreciations Rights (SARs)*

Certain non-U.S.-based employees have been granted SARs. Each SAR award grants the employee the right to receive cash equal to the excess of the share price of the Common Stock on the date that a participant exercises such right over the grant date price of the stock. SARs granted in the three months ended March 31, 2015 have three year pro rata vesting from the date of grant. SARs were issued at exercise prices equal to the fair value of Common Stock on the date of grant and expire ten years from the date of grant. Compensation expense for SARs is remeasured at each reporting period based on the estimated fair value on the date of grant using the Black-Scholes option-pricing model, using assumptions similar to stock option awards. SARs are subsequently remeasured at each interim reporting period based on a revised Black-Scholes value. No SARs were granted in 2016. As of March 31, 2016, there were 13,115 SARs outstanding and 3,899 were exercisable. In the first three months of 2015, the Company granted 10,390 cash-settled SARs.

## 6. Stock Based Compensation (continued)

### *Restricted Stock and Share Units*

Participants may also be awarded shares of restricted stock or share units under the Plan. The Company granted 77,577 and 75,315 share units under the plan in the three months ended March 31, 2016 and 2015, respectively. The share units were valued at \$4.9 million and \$4.6 million at the date of issuance in 2016 and 2015, respectively, based on the price of the Common Stock at the date of grant. The share units are recognized as compensation expense ratably over the three-year vesting period; however, included in share unit expense in the three months ended March 31, 2016 and 2015 was expense associated with accelerated vesting of share unit awards for certain employees who either are retirement eligible or will become retirement eligible during the vesting period. Stock based compensation expense attributable to share units of \$2.6 million and \$3.1 million was recognized in the three months ended March 31, 2016 and 2015, respectively. Certain non-U.S.-based employees receive the cash value of vested shares at the vesting date in lieu of shares.

A summary of share unit activity under the plan is as follows for the three months ended March 31, 2016:

	Number of Units	Weighted-Average Grant Date Value
Issued and unvested at January 1, 2016	329,262	\$ 44.30
Granted	77,577	63.39
Vested	(132,453)	34.70
Forfeited	(515)	54.66
Issued and unvested at March 31, 2016	<u>273,871</u>	<u>53.43</u>

## 7. Pensions

The following table presents the components of the Company's net pension expense.

	Three Months Ended March 31,	
	2016	2015
(dollars in millions)		
Service cost	\$ 0.5	\$ 0.5
Interest cost	7.6	9.4
Expected return on plan assets	(13.8)	(14.3)
Amortization of unrecognized loss	4.3	4.7
Amortization of prior service cost	(0.3)	(0.3)
Defined benefit plan benefit	<u>\$ (1.7)</u>	<u>\$ —</u>

The Company did not make a contribution to its U.S. pension plan in 2015. The Company is not required to make a contribution and does not anticipate making a contribution in 2016.

## 8. Operations by Segment

The Company is comprised of two reporting segments: North America and Rest of World. The Rest of World segment is primarily comprised of China, Europe and India. Both segments manufacture and market comprehensive lines of residential and commercial gas, gas tankless and electric water heaters. Both segments primarily manufacture and market in their respective regions of the world. The North America segment also manufactures and globally markets specialty commercial water heating equipment, condensing and non-condensing boilers and water system tanks. Primarily for Asia, the Rest of World segment also manufactures and markets water treatment products. The Company also markets in-home air purification products in China.

(dollars in millions)

	Three Months Ended March 31,	
	2016	2015
Net sales		
North America	\$ 423.9	\$ 429.2
Rest of World	217.4	195.9
Inter-segment sales	(4.4)	(6.6)
	<u>\$ 636.9</u>	<u>\$ 618.5</u>
Operating earnings		
North America	\$ 91.9	\$ 71.2
Rest of World	26.9	26.2
Inter-segment earnings elimination	(0.1)	—
	<u>118.7</u>	<u>97.4</u>
Corporate expenses	(13.4)	(12.7)
Interest expense	(1.7)	(1.9)
Earnings before income taxes	<u>103.6</u>	<u>82.8</u>
Provision for income taxes	30.1	24.4
Net earnings	<u>\$ 73.5</u>	<u>\$ 58.4</u>

## 9. Fair Value Measurements

ASC 820, *Fair Value Measurements*, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring basis or nonrecurring basis. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on the market approach which are prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

## 9. Fair Value Measurements (continued)

The following table presents assets measured at fair value on a recurring basis.

(dollars in millions)		
Fair Value Measurement Using	March 31, 2016	December 31, 2015
Quoted prices in active markets for identical assets (Level 1)	\$ 334.3	\$ 323.9
Significant other observable inputs (Level 2)	(0.2)	(0.3)
Total assets measured at fair value	<u>\$ 334.1</u>	<u>\$ 323.6</u>

There were no changes in our valuation techniques used to measure fair values on a recurring basis during the three months ended March 31, 2016.

## 10. Derivative Instruments

ASC 815, *Derivatives and Hedging*, as amended, requires that all derivative instruments be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of the hedging relationships. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as a part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure hedged, as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation.

The Company designates that all of its hedging instruments are cash flow hedges. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive loss, net of tax, and is reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. The amount by which the cumulative change in the value of the hedge more than offsets the cumulative change in the value of the hedged item (i.e., the ineffective portion) is recorded in earnings, net of tax, in the period the ineffectiveness occurs.

The Company utilizes certain derivative instruments to enhance its ability to manage currency as well as raw materials price risk. Derivative instruments are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into contracts for speculative purposes. The contracts are executed with major financial institutions with no credit loss anticipated for failure of the counterparties to perform.

### *Foreign Currency Forward Contracts*

The Company is exposed to foreign currency exchange risk as a result of transactions in currencies other than the functional currency of certain subsidiaries. The Company utilizes foreign currency forward purchase and sale contracts to manage the volatility associated with foreign currency purchases, sales and certain intercompany transactions in the normal course of business. Currencies for which the Company utilizes foreign currency forward contracts include the British pound, Canadian dollar, Euro and Mexican peso.

**10. Derivative Instruments (continued)**

Gains and losses on these instruments are recorded in accumulated other comprehensive loss, net of tax, until the underlying transaction is recorded in earnings. When the hedged item is realized, gains or losses are reclassified from accumulated other comprehensive loss to the statement of earnings. The assessment of effectiveness for forward contracts is based on changes in the forward rates. These hedges have been determined to be effective.

The majority of the amounts in accumulated other comprehensive loss for cash flow hedges is expected to be reclassified into earnings within one year.

The following table summarizes, by currency, the contractual amounts of the Company's foreign currency forward contracts.

(dollars in millions)

	March 31,			
	2016		2015	
	Buy	Sell	Buy	Sell
British pound	\$ —	\$ 0.8	\$ —	\$ 0.7
Canadian dollar	—	84.3	—	69.2
Euro	17.6	1.3	24.6	0.8
Mexican peso	16.2	—	14.0	—
Total	\$ 33.8	\$ 86.4	\$ 38.6	\$ 70.7

*Commodity Futures Contracts*

In addition to entering into supply arrangements in the normal course of business, the Company also entered into futures contracts to fix the cost of certain raw material purchases, principally copper and steel, with the objective of minimizing changes in cost due to market price fluctuations. The hedging strategy for achieving this objective is to purchase commodities futures contracts on the open market of the London Metals Exchange (LME) or over the counter contracts based on the LME for copper. Steel futures contracts are purchased on the New York Metals Exchange (NYMEX).

With NYMEX, the Company is required to make cash deposits on unrealized losses on steel derivative contracts.

The after-tax gains and losses on the effective portion of the copper and steel hedge contracts as of March 31, 2016 were recorded in accumulated other comprehensive loss and will be reclassified into cost of products sold in the period in which the underlying transaction is recorded in earnings. The effective portion of the contracts will be reclassified within one year. Contractual amounts of the Company's commodities futures contracts were immaterial as of the three months ended March 31, 2016.

## 10. Derivative Instruments (continued)

The following tables present the impact of derivative contracts on the Company's financial statements.

Fair value of derivatives designated as hedging instruments under ASC 815:

(dollars in millions)		March 31, 2016	December 31, 2015
	Balance Sheet Location		
Foreign currency contracts	Other current assets	\$ 1.0	\$ 3.6
	Accrued liabilities	(2.7)	(1.3)
Commodities contracts	Other current assets	0.7	—
	Accrued liabilities	(0.2)	(0.3)
<b>Total derivatives designated as hedging instruments</b>		<b>\$ (1.2)</b>	<b>\$ 2.0</b>

The effect of derivatives instruments on the condensed consolidated statement of earnings:

Three Months Ended March 31 (dollars in millions):

Derivatives in ASC 815 cash flow hedging relationships	Amount of gain (loss) recognized in OCI on derivative (effective portion)		Location of gain (loss) reclassified from accumulated OCI into earnings (effective portion)	Amount of gain (loss) reclassified from accumulated OCI into earnings (effective portion)		Location of gain (loss) recognized in earnings on derivative (ineffective portion)	Amount of gain (loss) recognized in earnings on a derivative (ineffective portion)	
	2016	2015		2016	2015		2016	2015
	Foreign currency contracts	\$ (3.8)		\$ 3.4	Cost of products sold		\$ 0.3	\$ 1.4
Commodities contracts	1.1	—	Cost of products sold	0.3	—	Cost of products sold	—	(0.1)
	<u>\$ (2.7)</u>	<u>\$ 3.4</u>		<u>\$ 0.6</u>	<u>\$ 1.4</u>		<u>\$ —</u>	<u>\$ (0.1)</u>

## 11. Income Taxes

The effective income tax rate for the three months ended March 31, 2016 was 29.0 percent compared to 29.5 percent for the first three months of 2015. The Company estimates that its annual effective income tax rate for the full year 2016 will be approximately 30.5 percent. The full year effective income tax rate in 2015 was 29.7 percent. The lower effective income tax rate for the three months ended March 31, 2016 compared to the anticipated full year 2016 effective income tax rate was primarily due to the early adoption of a new accounting standard for share-based compensation.

As of March 31, 2016, the Company had \$2.6 million of unrecognized tax benefits of which \$0.5 million would affect its effective income tax rate if recognized. The Company recognizes potential interest and penalties related to unrecognized tax benefits as a component of income tax expense.

The Company's U.S. federal income tax returns for 2014 and 2015 are subject to audit. The Company is subject to state and local income tax audits for tax years 2000-2015. The Company is subject to non-U.S. income tax examinations for years 2007-2015.

**12. Changes in Accumulated Other Comprehensive Loss by Component**

Changes to accumulated other comprehensive loss by component are as follows:

(dollars in millions)

	Three Months Ended March 31,	
	2016	2015
<b>Cumulative foreign currency translation</b>		
Balance at beginning of period	\$ (39.4)	\$ 3.3
Other comprehensive income (loss) before reclassifications	8.6	(9.3)
Balance at end of period	<u>(30.8)</u>	<u>(6.0)</u>
<b>Unrealized net gain on cash flow derivatives</b>		
Balance at beginning of period	1.2	0.9
Other comprehensive (loss) income before reclassifications	(1.6)	2.1
Realized gains on derivatives reclassified to cost of products sold (net of income tax provision of \$0.2 and \$0.5 in 2016 and 2015, respectively)	(0.4)	(0.9)
Balance at end of period	<u>(0.8)</u>	<u>2.1</u>
<b>Pension liability</b>		
Balance at beginning of period	(275.2)	(276.2)
Amounts reclassified from accumulated other comprehensive loss: (1)	2.5	2.5
Balance at end of period	<u>(272.7)</u>	<u>(273.7)</u>
Accumulated other comprehensive loss, end of period	<u>\$ (304.3)</u>	<u>\$ (277.6)</u>
(1) Amortization of pension items:		
Actuarial losses	\$ 4.3(2)	\$ 4.6(2)
Prior year service cost	<u>(0.3)(2)</u>	<u>(0.3)(2)</u>
	4.0	4.3
Income tax benefit	<u>(1.5)</u>	<u>(1.8)</u>
Reclassification net of income tax benefit	<u>\$ 2.5</u>	<u>\$ 2.5</u>

(2) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 7 - Pensions for additional details

**PART I - FINANCIAL INFORMATION**

**ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**OVERVIEW**

Our Company is comprised of two reporting segments: North America and Rest of World. Our Rest of World segment is primarily comprised of China, Europe and India. Both segments manufacture and market comprehensive lines of residential and commercial gas, gas tankless and electric water heaters. Both segments primarily manufacture and market in their respective region of the world. Our North America segment also manufactures and globally markets specialty commercial water heating equipment, condensing and non-condensing boilers and water system tanks. Primarily for Asia, our Rest of World segment also manufactures and markets water treatment products. We also market in-home air purification products in China.

Sales in our North America segment declined approximately one percent in the first quarter of 2016 driven primarily by lower volumes of U.S. residential water heaters, which more than offset higher prices in the U.S. and Canada on residential and commercial water heaters and higher boiler sales. We experienced higher volumes of U.S. residential and commercial water heaters in the first quarter of 2015 which we believe resulted from a pre-buy associated with announced price increases that became effective in April 2015. The National Appliance Energy Conservation Act of 1987 update (NAECA III) increased energy efficiency standards for the majority of our U.S. residential water heaters. Our new compliant products are more expensive to manufacture and, as a result, we increased prices approximately 20 percent in April 2015 for U.S. customers on NAECA III compliant products. We expect the U.S. residential water heater industry's unit shipments will be modestly higher in 2016 compared to 2015. We continue to see strength in U.S. commercial water heater volumes, and we expect the industry's 2016 unit shipments will be approximately five percent higher than last year. Driven by what we believe is a continuing transition in the boiler industry from non-condensing boilers to condensing boilers as well as new product introductions, we expect sales of Lochinvar-branded products to grow approximately ten percent in 2016.

Sales in our Rest of World segment grew approximately 11 percent in the first quarter of 2016, as a result of 12 percent sales growth in China. China sales in local currency grew 17 percent. We expect full year 2016 sales in China to grow at a rate of approximately 15 percent in local currency as we believe overall water heater market growth, geographic expansion, market share gains, growth in water treatment and air purification products and improved product mix will contribute to our growth.

We have successfully completed three enterprise resource planning (ERP) implementation milestones since 2014. We expect to have converted nearly all of our North American plant sites by the end of 2016. We project expenses related to our ERP implementation to be approximately \$24 million in 2016 compared to \$16 million of expenses in 2015 due to the larger number of scheduled implementation events in 2016.

**RESULTS OF OPERATIONS**

**FIRST THREE MONTHS OF 2016 COMPARED TO 2015**

Sales in the first quarter of 2016 were \$636.9 million or approximately three percent higher than sales of \$618.5 million in the first quarter of 2015. Excluding the impact from the stronger U.S. dollar against the Canadian and Chinese currencies, sales increased approximately five percent in the first quarter of 2016 compared to the same period last year. China sales grew approximately 12 percent in U.S. dollars and 17 percent in local currency due to increased sales of water heating, water treatment and air purifier products.



## [Table of Contents](#)

First quarter gross profit margin of 41.2 percent in 2016 was higher than gross profit margin of 37.1 percent in the first quarter of 2015. The higher gross profit margin in 2016 was primarily due to price increases in the U.S. and Canada that were effective in April 2015 as well as lower material costs in the first quarter of 2016.

Selling, general and administrative (SG&A) expenses for the first quarter of 2016 were \$159.4 million or \$12.2 million higher than SG&A expenses of \$147.2 million in the first quarter of 2015. The increase in SG&A expenses in 2016 was primarily due to higher selling and engineering costs in support of increased volumes in China as well as incremental costs associated with our ERP implementation.

Interest expense in the first quarter of 2016 was \$1.7 million, down slightly from \$1.9 million in the same period last year.

Other income was \$2.0 million in the first quarter of 2016, down from \$2.7 million in the same period last year. The decrease in other income in the first quarter of 2016 was primarily due to foreign currency fluctuations.

Our pension costs and credits are developed from actuarial valuations. The valuations reflect key assumptions regarding, among other things, discount rates, expected return on assets, retirement ages, and years of service. We consider current market conditions including changes in interest rates in making these assumptions. Our assumption for the expected rate of return on plan assets is 7.5 percent in 2016, compared with 7.75 percent in 2015. The discount rate used to determine net periodic pension costs increased from 4.05 percent in 2015 to 4.40 percent in 2016. Pension income for the first quarter of 2016 was \$1.7 million compared to minimal pension expense in the first quarter of 2015. As of December 31, 2015, we changed the method we used to estimate the service cost and interest components of net periodic pension benefit cost for our pension plan and post-retirement benefit plan. The change resulted in an approximate \$1.8 million decrease in the service and interest components in the three months ended March 31, 2016. Our pension costs/benefits are reflected in cost of products sold and SG&A expenses.

Our effective income tax rate for the first quarter of 2016 was 29.0 percent compared to 29.5 percent in the same period last year. We estimate that our effective income tax rate for the full year 2016 will be approximately 30.5 percent. The lower effective income tax rate for the quarter ended March 31, 2016 compared to the anticipated full year 2016 effective income tax rate was primarily due to the early adoption of a new accounting standard for share-based compensation.

### *North America*

Sales in the North America segment were \$423.9 million in the first quarter of 2016 or \$5.3 million lower than sales of \$429.2 million in the first quarter of 2015. Higher prices in the U.S. and Canada for residential and commercial water heaters as well as higher boiler sales were more than offset by lower volumes of residential and commercial water heaters in the U.S. We believe that sales of residential and commercial water heaters in the first quarter of 2015 were favorably impacted by a pre-buy associated with announced price increases effective in April 2015.

North America operating earnings were \$91.9 million in the first quarter of 2016 which were higher than operating earnings of \$71.2 million in the same period of 2015. The operating margin in the first quarter of 2016 of 21.7 percent was higher than the operating margin of 16.6 percent in the same period last year. The higher operating earnings and operating margin in 2016 were primarily due to higher prices in the U.S. and Canada and lower material costs that more than offset lower residential

## [Table of Contents](#)

and commercial water heater volumes in the U.S. and approximately \$3 million of expected incremental ERP implementation related costs. We expect our full year operating margin to be between 20.5 and 21.0 percent in 2016. Included in this guidance is a negative impact on margins beginning in the second half of 2016 due to the over \$150 per ton increase in steel prices that has occurred since January 1, 2016.

### *Rest of World*

Sales in the Rest of World segment were \$217.4 million in the first quarter of 2016 or \$21.5 million higher than sales of \$195.9 million in the first quarter of 2015. China sales increased 12 percent in U.S. dollar terms and 17 percent in local currency in the first quarter of 2016 compared to the same period last year due to higher demand for water heaters and water treatment products, as well as seasonal demand for our in-home air purifier products.

Rest of World operating earnings were \$26.9 million in the first quarter of 2016 compared to \$26.2 million in the first quarter of 2015. The impact to profits from higher China sales in the first quarter of 2016 was partially offset by increased SG&A expenses in China and a larger loss in India. Operating earnings in the first quarter of 2016 were reduced by approximately \$1.5 million due to China currency translation compared to the same period last year. Higher selling costs to support expansion in tier two and tier three cities and our e-commerce platform in China as well as higher development costs associated with new products including the expansion of our air purification product portfolio in China were the primary drivers of higher SG&A expenses. As a result of these factors, the first quarter operating margin of 12.4 percent in 2016 was lower than our operating margin of 13.4 percent in the same period last year. We expect our full year operating margin to be approximately 13 percent in 2016.

### **Outlook**

We expect our businesses to grow between nine and 9.5 percent in local currency and between seven and 7.5 percent in U.S. dollar terms in 2016. We expect sales of Lochinvar-branded products to grow approximately ten percent in 2016. We anticipate our China sales will increase 15 percent in local currency in 2016. With solid performance in the first quarter, we increased the midpoint of our EPS guidance for 2016. We believe we will achieve full-year earnings of between \$3.47 and \$3.55 per share, which excludes the potential impact from future acquisitions.

### **Liquidity & Capital Resources**

Working capital of \$823.9 million at March 31, 2016 was \$61.7 million higher than at December 31, 2015 primarily due to lower accounts payable balances, primarily in China, as well as timing of volume incentive payments in the U.S. Timing of annual employee incentive payments also contributed to lower current liability balances compared with the end of last year. As of March 31, 2016, essentially all of the \$640.8 million of cash, cash equivalents and marketable securities were held by our foreign subsidiaries. We would incur a cost to repatriate these funds to the U.S. and have accrued \$44.4 million for the repatriation of a portion of these funds.

Cash provided by operating activities in the first quarter of 2016 was \$26.5 million compared with \$0.4 million of cash used by operations during the same period last year. Higher cash flow in the 2016 period was primarily due to higher earnings. For the full year 2016, we expect total cash provided by operating activities to be approximately \$330 million.

Capital expenditures totaled \$19.4 million in the first quarter of 2016, compared with \$14.9 million spent in the year ago period. We project 2016 capital expenditures will be between \$110 to \$120 million, including approximately \$9 million to support our ERP software implementation and approximately \$22 million related to capacity expansion to support growth in China and in the U.S. We expect full year depreciation and amortization will be approximately \$70 million.

## [Table of Contents](#)

In December 2012, we completed a \$400 million multi-currency credit facility with a group of eight banks, which expires in December 2017. The facility has an accordion provision which allows it to be increased up to \$500 million if certain conditions (including lender approval) are satisfied. Borrowing rates under the facility are determined by our leverage ratio. The facility requires us to maintain two financial covenants, a leverage ratio test and an interest coverage test, and we were in compliance with the covenants as of March 31, 2016.

The facility backs up commercial paper and credit line borrowings. As a result of the long-term nature of this facility, our commercial paper and credit line borrowings, as well as drawings under the facility, are classified as long-term debt. At March 31, 2016, we had available borrowing capacity of \$215.7 million under this facility. We believe the combination of available borrowing capacity and operating cash flows will provide sufficient funds to finance our existing operations for the foreseeable future.

In January 2015 we issued \$75 million of fixed rate term notes to an insurance company. Principal payments commence in 2020 and the notes mature in 2030. The notes have an interest rate of 3.52 percent. We used proceeds of the notes to pay down borrowings under our revolving credit facility.

Our total debt increased \$38.3 million from \$249.0 million at December 31, 2015 to \$287.3 million at March 31, 2016, as our cash flows generated in the U.S. were more than offset by our share repurchase activity and dividend payments. Our leverage, as measured by the ratio of total debt to total capitalization, was 16.3 percent at the end of the first quarter in 2016, compared with 14.7 percent at the end of last year.

Our pension plan continues to meet all funding requirements under ERISA regulations. We forecast that we will not be required to make a contribution to the plan in 2016, and we do not plan to make any voluntary contributions to the plan in 2016.

In 2015 our Board of Directors approved adding 2,000,000 shares of common stock to an existing discretionary share repurchase authority. Under the share repurchase program, our common stock may be purchased through a combination of a Rule 10b5-1 automatic trading plan and discretionary purchases in accordance with applicable securities laws. The stock repurchase authorization remains effective until terminated by our Board of Directors, which may occur at any time, subject to the parameters of any Rule 10b5-1 automatic trading plan that we may then have in effect. During the first quarter of 2016, we repurchased 437,298 shares of our stock at a total cost of \$30.5 million. A total of approximately 2,150,000 shares remained of the existing repurchase authority at March 31, 2016. Depending on factors such as stock price, working capital requirements and alternative investment opportunities, we expect to spend approximately \$175 million on stock repurchase activity in 2016.

On April 11, 2016, our Board of Directors declared a cash dividend of \$0.24 per share on our Common Stock and Class A common stock. The dividend is payable on May 16, 2016 to shareholders of record on April 29, 2016.

### **Critical Accounting Policies**

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the U.S. which requires the use of estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future

## [Table of Contents](#)

events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The critical accounting policies that we believe could have the most significant effect on our reported results or require complex judgment by management are contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended December 31, 2015. We believe that at March 31, 2016, there has been no material change to this information.

### **Recent Accounting Pronouncements**

Refer to *Recent Accounting Pronouncements* in Note 1 – Basis of Presentation in the notes to our condensed consolidated financial statements included in Part 1 Financial Information.

### **ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As is more fully described in our Annual Report on Form 10-K for the year ended December 31, 2015, we are exposed to various types of market risks, including currency and certain commodity risks. Our quantitative and qualitative disclosures about market risk have not materially changed since that report was filed. We monitor our currency and commodity risks on a continuous basis and generally enter into forward and futures contracts to reduce these exposures. The majority of the contracts are for periods of less than one year. Our Company does not engage in speculation in our derivative strategies. It is important to note that gains and losses from our forward and futures contract activities are offset by changes in the underlying costs of the transactions being hedged.

### **ITEM 4 - CONTROLS AND PROCEDURES**

#### **Evaluation of disclosure controls and procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon their evaluation of these disclosure controls and procedures, our principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of March 31, 2016 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC rules and forms, and to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

#### **Changes in internal control over financial reporting**

In the first quarter of 2016, we completed another implementation phase of our global enterprise resource planning system. This multi-year initiative is being conducted in phases and includes modifications to the design and operation of controls over financial reporting. We are testing internal controls over financial reporting for design effectiveness prior to implementation of each phase, and we have monitoring controls in place over the implementation of these changes.

Except as described above, there have been no other changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act) during the quarter ended March 31, 2016 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

### **Forward Looking Statements**

This filing 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,” “forecast,” “guidance” or words of similar meaning. All 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 filing. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following: a further slowdown in the growth rate of the Chinese economy; potential weakening in the high efficiency boiler segment in the U.S.; significant volatility in raw material prices; inability to implement or maintain pricing actions; potential weakening in U.S. residential or commercial construction or instability in the company’s replacement markets; uncertain costs, savings and timeframes associated with the implementation of the new enterprise resource planning system; foreign currency fluctuations; the ability to execute the company’s acquisition strategy; competitive pressures on the company’s businesses; and adverse general economic conditions and capital market deterioration. Forward-looking statements included in this filing are made only as of the date of this filing, 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.

[Table of Contents](#)

**PART II - OTHER INFORMATION**

**ITEM 1 - LEGAL PROCEEDINGS**

There have been no material changes in the legal and environmental matters discussed in Part 1, Item 3 and Note 14 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2015.

**ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In 2015, our Board of Directors authorized the purchase of an additional 2,000,000 shares of Common Stock to an existing discretionary share repurchase authority. Under the share repurchase program, the Common Stock may be purchased through a combination of Rule 10b5-1 automatic trading plan and discretionary purchases in accordance with applicable securities laws. The number of shares purchased and the timing of the purchases will depend on a number of factors, including share price, trading volume and general market conditions, as well as working capital requirements, general business conditions and other factors, including alternative investment opportunities. The stock repurchase authorization remains effective until terminated by our Board of Directors which may occur at any time, subject to the parameters of any Rule 10b5-1 automatic trading plan that we may then have in effect. In the first quarter of 2016, we repurchased 437,298 shares at an average price of \$69.74 per share and at a total cost of \$30.5 million. As of March 31, 2016, there were 2,152,458 shares remaining on the repurchase authorization that existed at that time.

ISSUER PURCHASES OF EQUITY SECURITIES

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that may yet be Purchased Under the Plans or Programs</u>
January 1 – January 31, 2016	146,700	\$ 67.13	146,700	2,443,056
February 1 – February 29, 2016	115,523	67.49	115,523	2,327,533
March 1 – March 31, 2016	175,075	73.40	175,075	2,152,458

**ITEM 5 - OTHER INFORMATION**

None.

**ITEM 6 - EXHIBITS**

Refer to the Exhibit Index on page 24 of this report.

[Table of Contents](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has authorized this report to be signed on its behalf by the undersigned.

May 9, 2016

**A. O. SMITH CORPORATION**

/s/ Daniel L. Kempken

Daniel L. Kempken  
Vice President and Controller

/s/ John J. Kita

John J. Kita  
Executive Vice President and  
Chief Financial Officer

**INDEX TO EXHIBITS**

<u>Exhibit Number</u>	<u>Description</u>
3(i)(a)	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of A. O. Smith Corporation.
3(i)(b)	Restated Certificate of Incorporation of A. O. Smith Corporation
10	A.O. Smith Corporation Executive Incentive Compensation Award Agreement
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
101	The following materials from A. O. Smith Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 are filed herewith, formatted in XBRL (Extensive Business Reporting Language): (i) the Condensed Consolidated Statement of Earnings for the three months ended March 31, 2016 and 2015, (ii) the Condensed Consolidated Statement of Comprehensive Earnings for the three months ended March 31, 2016 and 2015, (iii) the Condensed Consolidated Balance Sheets as of March 31, 2016, and December 31, 2015 (iv) the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2016 and 2015 (v) the Notes to Condensed Consolidated Financial Statements



**CERTIFICATE OF AMENDMENT  
TO THE  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
A. O. SMITH CORPORATION**

A. O. Smith Corporation (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware (the "GCL"), does hereby certify as follows:

1. That at a meeting of the Board of Directors of the Corporation resolutions were duly adopted setting forth a proposed amendment of the Amended and Restated Certificate of Incorporation of the Corporation, declaring said amendment to be advisable and calling for the stockholders of the Corporation to consider such amendment at the next annual meeting of the Corporation. The resolution setting forth the proposed amendment is as follows:

**RESOLVED**, that the Board hereby determines and declares that it is advisable and in the best interests of the Company and the Company's stockholders to amend the Charter to delete the existing first paragraph of Article 4 of the Charter and insert in lieu thereof the following (the "Amendment"):

"The aggregate number of shares which the corporation has the authority to issue shall be two hundred seventy million (270,000,000) shares, consisting of:

- (a) twenty seven million (27,000,000) shares designated as "Class A Common Stock," with a par value of Five Dollars (\$5) per share;
- (b) two hundred forty million (240,000,000) shares designated as "Common Stock," with a par value of One Dollar (\$1) per share; and
- (c) three million (3,000,000) shares designated as "Preferred Stock," with a par value of One Dollar (\$1) per share."

2. That pursuant to a resolution of the Board of Directors the annual meeting of the stockholders of the Corporation was duly called and held upon notice in accordance with Section 222 of the GCL at which meeting the necessary number of shares as required by the GCL were voted in favor of the amendment.

3. That said amendment was duly adopted in accordance with the provisions of Section 242 of the GCL.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be executed on its behalf this 11th day of April, 2016.

By: /s/ James F. Stern

Name: James F. Stern

Title: Executive Vice President,  
General Counsel and Secretary

**RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
A. O. SMITH CORPORATION**

A. O. Smith Corporation (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware (the "DGCL"), does hereby certify as follows:

1. The name of the Corporation is A. O. Smith Corporation. The date of filing of its original Certificate of Incorporation with the Secretary of State of the State of Delaware was July 9, 1986. The original name of the corporation was AOSCO, INC.
2. This Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation in accordance with Section 245 of the DGCL.
3. This Restated Certificate of Incorporation restates and integrates and does not further amend the Restated Certificate of Incorporation of the Corporation, as heretofore restated, amended or supplemented. There is no discrepancy between those provisions and the provisions of this Restated Certificate of Incorporation.
4. The text of the Restated Certificate of Incorporation is restated in its entirety as follows:

**ARTICLE 1**

The name of the corporation is "A. O. SMITH CORPORATION."

**ARTICLE 2**

The address of the corporation's Registered Office in the State of Delaware is The Prentice-Hall Corporation System, Inc., 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle. The name of its Registered Agent at such address is The Prentice-Hall Corporation System, Inc.

**ARTICLE 3**

The nature of the business or purposes to be conducted or promoted are:

- (A) (1) To manufacture, buy, sell, export, import and generally deal in all kinds of manufactured products and materials therefor, and in particular, steel and iron products and materials therefor.
- (2) To carry on the business of mining, milling, concentrating, converting, smelting, treating, preparing for market, manufacturing, buying, selling, exchanging and otherwise producing and dealing in gold, silver, copper, lead, zinc, brass, iron, steel and all kinds of ores, metals and minerals and the products and by-products thereof. Without in any way limiting the foregoing to search for, prospect and explore for ores and minerals and to locate

mining claims, grounds or lodes in the United States of America or the states or territories thereof or in other countries and record the same pursuant to the mining laws of the said United States or the states or territories thereof or other countries.

(3) To manufacture, buy, sell, lease and deal in machinery for mining and other uses and to buy or otherwise acquire, apply for, sell, deal in, trade and let to lease upon rents or royalties and patents or patent rights on machinery, tools or equipment which may be used in mining and to conduct a general mining and manufacturing business.

(4) In general, but in connection with the purposes set forth in this Article 3, to carry on any other business, whether manufacturing or otherwise, and to have and exercise all the powers conferred by the laws of Delaware upon secular corporations.

(B) To apply for, obtain, register, purchase, lease, or otherwise acquire, and to hold, own, use, operate and introduce, and to sell, assign or otherwise dispose of letters patent, licenses, trademarks, trade names, and any and all inventions, improvements and processes used in connection with, or secured under letters patent of the United States of America or of any other country or government and pending applications therefor, including any interest therein, and to grant licenses in respect thereto, or otherwise turn the same to the use and account of the corporation.

(C) To acquire by purchase, lease or otherwise, upon such terms and conditions and in such manner as the board of directors of the corporation shall determine or agree to, and to the extent which the same may be allowed by the Delaware General Corporation Law, all or any part of the property, real and personal, tangible or intangible, of any nature whatsoever, including the good will, business and rights of all kinds, or any other corporation or of any person, firm or association, which may be useful or convenient in the business of the corporation, and to pay for the same in cash, stocks, bonds or in other securities of this corporation, or partly in cash and partly in such stocks, bonds or in other securities, or in such other manner as may be agreed, and to hold, possess and improve such properties, and to conduct in any legal manner the whole or any part of the business so acquired, and to pledge, mortgage, sell or otherwise dispose of the same.

(D) To borrow money, and, from time to time, to make, accept, endorse, execute and issue bonds, debentures, promissory notes, bills of exchange and other obligations of the corporation for moneys borrowed or in payment for property acquired or for any of the other objects or purposes of the corporation or its business, and as permitted by law to secure the payment of any such obligations by mortgage, pledge, deed, indenture, agreement or other instrument of trust, or by other lien upon, assignment of or agreement in regard to, all or any part of the property, rights, privileges or franchises of the corporation wheresoever situated, whether now owned or hereafter to be acquired.

(E) To acquire by purchase, subscription or otherwise, and to hold and own and to sell, assign, transfer, pledge or otherwise dispose of the stock, or certificates of interest in shares of stocks, bonds, debentures, obligations and other evidences of indebtedness of any other corporation, domestic or foreign, and to issue in exchange therefor the stock, bonds, or other obligations of the corporation and while the owner of any such stock, certificates of interest in

shares of stock, bonds, debentures, obligations and other evidences of indebtedness, to possess and exercise in respect thereof all of the rights, powers and privileges of ownership, including the right to vote thereon, and also in the manner, and to the extent, now or hereafter authorized or permitted by the laws of the State of Delaware, to purchase, acquire, own and hold and to dispose of (except as herein otherwise expressly provided) the stock, bonds or other evidences of indebtedness of the corporation; and to organize or cause to be organized under the laws of any state or other government, corporations, companies, associations, trusts, partnerships and other organizations for any lawful purpose, and to dissolve, liquidate, wind up, reorganize, merge or consolidate the same or cause the same to be dissolved, liquidated, wound up, reorganized, merged or consolidated.

(F) To the extent permitted by law, guarantee the payment of dividends on, or the payment or principal of or interest on, any stocks, bonds, notes, debentures, or other securities or obligations of any individual, corporation, company, association, trust, partnership or other organization in which the corporation has an interest or any of whose securities it owns; to the extent permitted by law, to become surety for and to guarantee the carrying out or performance of contracts of every kind and character of any individual, corporation, company, association, trust, partnership or other organization in which the corporation has an interest or any of whose securities it owns; and to aid in any lawful manner any individual, corporation, company, association, trust, partnership or other organization in which the corporation has an interest or any of whose securities it owns.

(G) To execute and deliver general or special powers of attorney to individuals, corporations, companies, associations, trusts, partnerships and other organizations, whether public or private, as the board of directors shall determine.

(H) In general to do any or all of the things hereinbefore set forth, and such other things as are incidental or conducive to the attainment of the objects and purposes of the corporation, as principal, factor, agent, contractor or otherwise, either alone or in conjunction with any person, firm, association or corporation, and in carrying on its business and for the purpose of attaining or furthering any of its objects to make and perform contracts, and to do such acts and things and to exercise any and all such powers to the same extent as a natural person might or could lawfully do to the extent allowed by law.

(I) To have one or more offices and to carry on its operations and transact its business within and without the State of Delaware, and, without restriction or limit as to amount, to purchase or otherwise acquire, hold, own, mortgage, sell, convey or otherwise dispose of real and personal property of every class and description in any of the states, districts, territories or dependencies of the United States, and in any and all foreign countries, subject always to the laws of such state, district, territory, dependency or foreign country.

The foregoing clauses shall each be construed as both purposes and powers, and the matters expressed in each clause shall, except as otherwise expressly provided, be in no wise limited by reference to or inference from the terms of any other clause, but shall be regarded as independent purposes and powers, and the enumeration of specific purposes and powers shall not be construed to limit or restrict in any manner the meaning of general terms or the general powers of the corporation; nor shall the expression of one thing be deemed to exclude another, although it be of like nature, not expressed.

## ARTICLE 4

The aggregate number of shares which the corporation has the authority to issue shall be two hundred seventy million (270,000,000) shares, consisting of:

- (a) twenty seven million (27,000,000) shares designated as "Class A Common Stock," with a par value of Five Dollars (\$5) per share;
- (b) two hundred forty million (240,000,000) shares designated as "Common Stock," with a par value of One Dollar (\$1) per share; and
- (c) three million (3,000,000) shares designated as "Preferred Stock," with a par value of One Dollar (\$1) per share.

Any and all such shares of Class A Common Stock, Common Stock and Preferred Stock may be issued for such consideration, not less than the par value thereof, as shall be fixed from time to time by the board of directors. Upon any distribution of authorized but unissued shares to stockholders, the part of the surplus of the corporation (not less than the par value of such shares) which is concurrently transferred to stated capital shall be deemed the consideration for the issue of such shares. Any and all such shares so issued, the full consideration for which has been paid, delivered or so transferred, shall be deemed fully paid stock and shall not be liable to any further call or assessment thereon, and the holders of such shares shall not be liable for any further payments except as otherwise provided by applicable law of the State of Delaware or any other state in which the corporation holds a certificate of authority to do business. The relative rights, preferences and limitations of each class shall be as follows:

### (A) Class A Common Stock and Common Stock

Except as provided in this Article 4, the Class A Common Stock and the Common Stock shall have the same rights and privileges and shall rank equally, share ratably and be identical in all respects as to all matters.

#### (1) Dividends; Combinations; and Subdivisions.

(a) The holders of the Class A Common Stock and Common Stock shall be entitled to receive, when and as declared by the board of directors, such dividends including share distributions (as defined in paragraph (A)(1)(b)) as may be declared from time to time by the board of directors subject to any limitations applicable by law of the State of Delaware, to the rights of the holders of the Preferred Stock, and to the following limitation. Whenever a dividend which is not a share distribution is paid to the holders of Class A Common Stock, the corporation shall also pay to the holders of Common Stock a dividend per share at least equal to the dividend per share paid to the holders of the Class A Common Stock. The corporation may pay dividends which are not share distributions to holders of Common Stock in excess of dividends paid, or without paying dividends, to holders of Class A Common Stock.

(b) If at any time a distribution is to be paid in Class A Common Stock or Common Stock (a “share distribution”), such share distribution may be declared and distributed only as follows:

(i) Shares of one class of either the Class A Common Stock or the Common Stock (the “first class”) may be distributed on shares of that class, provided that there is declared and paid a simultaneous distribution of shares of the other class of stock (the “second class”) to the holders of the second class which simultaneous distribution shall consist of a number of shares of the second class equal on a per share basis to the number of shares of the first class which are distributed to holders of the first class.

(ii) Subject to any limitations of the laws of the State of Delaware, shares of the first class may be distributed on shares of the second class, provided that there is declared and paid a simultaneous distribution of shares of the first class to holders of shares of the first class which simultaneous distribution shall consist of a number of shares of the first class equal on a per share basis to the number of shares of the first class which are distributed to holders of the second class.

(c) The corporation shall not combine or subdivide shares of the first class without making a simultaneous combination or subdivision of shares of the second class which is equal on a per share basis to the combination or subdivision of the shares of the first class.

(2) Voting.

Voting power shall be divided between the Class A Common Stock and the Common Stock as follows:

(a) With respect to the election of directors, holders of the Common Stock, voting as a separate class, shall be entitled to elect that number of directors which constitutes  $33\frac{1}{3}\%$  of the authorized number of members of the board of directors and, if such  $33\frac{1}{3}\%$  is not a whole number, then the holders of the Common Stock shall be entitled to elect to the nearest higher whole number of directors that is at least  $33\frac{1}{3}\%$  of such membership. Holders of Class A Common Stock, voting as a separate class but subject to any voting rights which may be granted to holders of Preferred Stock, shall be entitled to elect the remaining directors.

(b) The holders of Class A Common Stock shall be entitled to vote as a separate class but subject to any voting rights which may be granted to holders of Preferred Stock, on the removal with or without cause, of any director elected by the holders of Class A Common Stock, and the holders of Common Stock shall be entitled to vote as a separate class on the removal, with or without cause, of any director elected by the holders of Common Stock.

(c) In the discretion of the board of directors, (i) any vacancy in the office of a director elected by the holders of the Class A Common Stock may be filled by a vote of such holders, voting as a separate class but subject to any voting rights which may be granted to holders of Preferred Stock, and any vacancy in the office of a director elected by the holders of the Common Stock may be filled by a vote of such holders, voting as a separate class, or (ii) in the case of a vacancy in the office of a director elected by either class, such vacancy may be filled by the remaining directors. Any director elected by the board of directors to fill a vacancy shall serve until the next Annual Meeting of Stockholders and until his successor has been elected and has qualified. If permitted by the By-Laws, the board of directors may (i) increase the number of directors and any vacancy so created may be filled by the board of directors, or (ii) decrease the number of directors; provided that, so long as the holders of Common Stock had the rights provided in paragraph (A)(2)(a) of this Article 4 in respect of the last Annual Meeting of Stockholders, the board of directors may be so enlarged (or so decreased) only to the extent that at least 33  $\frac{1}{3}$ % of the enlarged (or decreased) board consists of directors elected by the holders of the Common Stock or by directors appointed to fill vacancies created by the death, resignation or removal of directors elected by the holders of the Common Stock.

(d) The Common Stock will not have the right to elect directors set forth in paragraphs (A)(2)(a) and (A)(2)(c) of this Article 4, if, on the record date of any stockholder meeting at which directors are to be elected, the number of issued and outstanding shares of Common Stock is less than 10% of the aggregate number of issued and outstanding shares of Class A Common Stock and Common Stock. In such case, all directors to be elected at such meeting shall be elected by holders of Class A Common Stock and Common Stock, voting together as a single class but subject to any voting rights which may be granted to holders of Preferred Stock, provided that with respect to said election, the holders of Class A Common Stock shall have one vote per share and holders of Common Stock shall have one-tenth vote per share. The Class A Common Stock will not have the right to elect directors set forth in paragraphs (A)(2)(a) and (A)(2)(c) of this Article 4, if, on the record date for any stockholder meeting at which directors are to be elected, the number of issued and outstanding shares of Class A Common Stock is less than 12.5% of the aggregate number of issued and outstanding shares of Class A Common Stock and Common Stock. In such case, holders of Common Stock, voting as a separate class, shall have the right to elect 33  $\frac{1}{3}$ % of the members of the board of directors as provided in paragraph (A)(2)(a) of this Article 4, and holders of Class A Common Stock and Common Stock voting together as a separate class but subject to any voting rights which may be granted to holders of Preferred Stock, shall be entitled to elect the remaining directors, provided that with respect to said election, the holders of Class A Common Stock shall have one vote per share and the holders of Common Stock shall have one-tenth vote per share.



(e) Subject to the provisions of section (D) of this Article 4, the holders of Class A Common Stock and Common Stock shall in all matters not specified in paragraphs (A)(2)(a), (b), (c) and (d) of this Article 4 vote together as a single class but subject to any voting rights which may be granted to holders of Preferred Stock, provided that the holders of Class A Common Stock shall have one vote per share and the holders of Common Stock shall have one-tenth vote per share.

(f) Notwithstanding anything in this subsection (A)(2) or in section (D) of this Article 4 to the contrary but subject to any voting rights which may be granted to holders of Preferred Stock, the holders of Class A Common Stock shall have exclusive voting power on all matters, at any time when no Common Stock is issued and outstanding, and the holders of Common Stock shall have exclusive voting power on all matters at any time when no Class A Common Stock is issued and outstanding.

(3) Conversion.

(a) The holder of any shares of Class A Common Stock at his option will be entitled at any time to convert each share of Class A Common Stock into one share of Common Stock. Such right shall be exercised by the surrender of the shares of Class A Common Stock so to be converted to the corporation at any time during normal business hours at the office or agency then maintained by it for payment of dividends on the shares of the Class A Common Stock and the Common Stock (the "Payment Office"), accompanied by written notice of such holder's election to convert and (if so required by the corporation or any conversion agent) by instruments of transfer, in form satisfactory to the corporation and to any conversion agent, duly executed by the registered holder or by his duly authorized attorney.

(b) As promptly as practicable after the surrender for conversion of any shares of Class A Common Stock in the manner provided in paragraph A(3)(a) of this Article 4, the corporation will deliver or cause to be delivered at the Payment Office to or upon the written order of the holder of such shares, certificates representing the number of full shares of Common Stock issuable upon such conversion, issued in such name or names as such holder may direct. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Class A Common Stock, and all rights of the holder of such shares as a holder of such shares shall cease at such time and the person or persons in whose name or names the certificates for shares of Common Stock are to be issued shall be treated for all purposes as having become the record holder or holders thereof at such time; provided, however, that any such surrender on any date when the stock transfer books of the corporation shall be closed shall constitute the person or persons in whose name or names the certificates for such shares of Common Stock are to be issued as the record holder or holders thereof for all purposes immediately prior to the close of business on the next succeeding day on which such stock transfer books are opened.

(c) No adjustments in respect of dividends shall be made upon the conversion of any shares of the Class A Common Stock; provided, however, that if shares of Class A Common Stock shall be converted subsequent to the record date preceding a dividend payment on the Class A Common Stock but prior to the payment date for such dividend, the registered holder of such shares of Class A Common Stock at the close of business on such record date nonetheless shall be entitled to receive the dividend paid on such shares, if any, on such payment date notwithstanding the conversion thereof.

(d) The corporation covenants that it will at all times reserve and keep available, solely for the purpose of issue upon conversion of the shares of Class A Common Stock, such number of shares of Common Stock as shall be issuable upon the conversion of all such outstanding shares of Class A Common Stock, provided, that nothing contained herein shall be construed to preclude the corporation from satisfying its obligations in respect of the conversion of the shares of Class A Common Stock by delivery of shares of Common Stock which are held in the treasury of the corporation.

The corporation covenants that all shares of Common Stock which shall be issued upon conversion of the shares of the Class A Common Stock will upon issue be fully paid and non-assessable and not subject to any preemptive rights, except as otherwise required by applicable law.

(e) If the number of issued and outstanding shares of Class A Common Stock is less than 2,397,976 (subject to adjustment for any combination or consolidation of the Class A Common Stock, by reclassification or otherwise, into a greater or lesser number of shares of Class A Common Stock, or any dividend payable in Class A Common Stock), then, in accordance with and subject to paragraph A(3)(g) of this Article 4, each share of Class A Common Stock shall automatically be converted into one share of Common Stock.

(f) If, after the Effective Time (as defined in the SICO Merger Agreement), beneficial ownership of shares of Class A Common Stock is transferred by any Existing Class A Holder, whether by sale, assignment, gift, bequest, appointment or otherwise, to any person other than a Permitted Transferee (a “**Non-Permitted Transfer**”), then, in accordance with and subject to paragraph A(3)(g) of this Article 4, each share of Class A Common Stock so transferred shall automatically be converted into one share of Common Stock. The following definitions shall apply to this paragraph A(3)(f):

(i) “**Existing Class A Holder**” shall mean any beneficial owner of shares of Class A Common Stock as of immediately after the Effective Time, and any Permitted Transferee of such Existing Class A Holder to whom Class A Common Stock has been transferred in accordance with this paragraph A(3)(f);

(ii) **“Permitted Transferee”** shall mean, with respect to any Existing Class A Holder, (A) any Related Party of such Existing Class A Holder, (B) any Smith Family Member, and (C) any other person approved as a “Permitted Transferee” by the board of directors of the corporation;

(iii) **“Related Party”** shall mean: (A) with respect to any Existing Class A Holder that is a natural person, the parents, grandparents, siblings, spouses, ex-spouses and issue (natural or adoptive), spouses and ex-spouses of issue (natural or adoptive) and any trust for the benefit of, the estate of or the legal representative of, any of such Existing Class A Holder or such persons (provided, that any such trust shall qualify as a Related Party notwithstanding that a remainder interest in such trust is for the benefit of any other person), any partnership the partners of which are such Existing Class A Holder or one or more of such persons, or any limited liability company, corporation or other entity the ownership interests of which are held by such Existing Class A Holder or one or more of such persons, and (B) with respect to any Existing Class A Holder that is a trust, partnership, limited liability company, corporation or other entity, the beneficiaries of such trust and the partners, members, shareholders or other equity owners of such partnership, limited liability company, corporation or other entity, and the Related Parties of such persons;

(iv) **“Smith Family Member”** shall mean any lineal descendant of Lloyd R. Smith and such descendant’s parents, grandparents, siblings, spouses, ex-spouses and issue (natural or adoptive), spouses and ex-spouses of issue (natural or adoptive) and any trust for the benefit of, the estate of or the legal representative of, any of such persons (provided, that any such trust shall qualify as a Smith Family Member notwithstanding that a remainder interest in such trust is for the benefit of any other person), or any partnership the partners of which are one or more of such persons, or any limited liability company, corporation or other entity the ownership interests of which are held by one or more of such persons;

(v) A **“person”** means any natural person, trust, limited liability company, corporation or other entity; and

(vi) The **“beneficial owner”** of, and **“beneficial ownership”** of, any shares of Class A Common Stock shall be determined in accordance with Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended.

(g) In the event of any automatic conversion of shares of Class A Common Stock pursuant to paragraphs A(3)(e) or A(3)(f) of this Article 4, certificates formerly representing outstanding shares of Class A Common Stock subject to such automatic conversion will thereafter be deemed to represent a like number of shares of Common Stock. Such automatic conversion shall be deemed to have been made immediately prior to the close of business on the date on which the event resulting in such automatic conversion shall have occurred, and all rights of the holder of such shares of Class A Common Stock shall cease at such time and such holders shall be treated for all purposes as having become the holder or holders of the shares of Common Stock issuable upon such automatic conversion. If an Existing Class A Holder inadvertently transfers shares of Class A Common Stock in a Non-Permitted Transfer, or transfers shares of Class A Common Stock with the bona fide belief that such transfer was not a Non-Permitted Transfer, such Existing Class A Holder shall have the right to cure such Non-Permitted Transfer within 30 calendar days of such person's receipt of notice from the corporation of its determination that a Non-Permitted Transfer has occurred and, if such Non-Permitted Transfer is cured within such 30-day period, the shares of Class A Common Stock shall be deemed not to have been automatically converted into Common Stock. The corporation may, as a condition to the transfer or the registration of transfer of shares of Class A Common Stock to a purported Permitted Transferee, require the furnishing of such affidavits or other proof as it deems necessary to establish that such transferee is a Permitted Transferee. A good faith determination by the board of directors that a Class A Holder is not a Permitted Transferee, or that no right of cure is available or that such right of cure has lapsed, and that, therefore, an automatic conversion shall have occurred, shall be conclusive and binding on a Class A Holder. The corporation shall note on the certificates representing the shares of Class A Common Stock that transfer by a Class A Holder to a person other than a Permitted Transferee may result in the automatic conversion of such shares of Class A Common Stock pursuant to paragraphs A(3)(e) or A(3)(f) of this Article 4.

(B) Preferred Stock

(1) Series of Preferred Stock

The board of directors shall have authority, by resolution or resolutions, to divide the Preferred Stock into series, to establish and designate each such series and the number of shares thereof (which number, by like action of the board of directors from time to time thereafter, may be increased except when otherwise provided by the board of directors in creating such series, or may be decreased but not below the number of shares thereof then outstanding), and to determine and fix the rights, preferences and limitations in respect of the shares of each series established prior to the issuance thereof, and the relative variations therein as between series, to the fullest extent now or hereafter permitted by applicable law of the State of Delaware, and (without limiting the generality of the foregoing) particularly with respect to:

- (a) The rate of dividend and the initial original issue date or other date from which such dividends shall be cumulative;
- (b) The price or prices, at the period or periods within, and the terms and conditions on which shares may or shall be redeemed;
- (c) The amounts payable upon shares in the event of voluntary liquidation or involuntary liquidation;
- (d) The terms of the sinking fund provisions or redemption or purchase account, if any, for the redemption or purchase of shares;
- (e) The terms and conditions on which shares may be converted into shares of Class A Common Stock or Common Stock, if the shares of any series are issued with the privilege of conversion; and
- (f) Whether or not shares shall have voting powers, and the terms and conditions upon which any voting powers may be exercised; provided that, so long as any Common Stock is outstanding, no Preferred Stock with voting powers shall have more than one vote per share nor shall any such Preferred Stock be entitled to vote with the Common Stock in the election of 33 1/3% of the members of the board of directors pursuant to paragraph (A)(2)(a) of this Article 4, on the removal of directors elected by holders of Common Stock pursuant to paragraph (A)(2)(b) of this Article 4, or in the filling of vacancies in the office of a director elected by holders of Common Stock pursuant to paragraph (A)(2)(d) of this Article 4.

Except as to the matters in respect to which variations are permitted under this subsection (B)(1), all series of the Preferred Stock of the corporation, whenever designated and issued, shall have the same rights, preferences and limitations and shall rank equally, share ratably and be identical in all respects as to all matters.

All shares of any one series of Preferred Stock established as hereinabove authorized shall be alike in every particular, and each series thereof shall be distinctively designated by letter or descriptive words or figures.

Any shares of Preferred Stock reacquired by the corporation by purchase or redemption, through conversion, or through the operation of any sinking fund or redemption or purchase account and which are thereafter cancelled shall have the status of authorized but unissued shares of Preferred Stock of the corporation, and, subject to the provisions of any series of the Preferred Stock, may thereafter be reissued as part of the same series or may be reclassified and reissued by the board of directors in the same manner as any other authorized but unissued shares of Preferred Stock.

(2) Dividends.

Before any dividends, other than stock dividends, shall be paid or set apart for payment upon either the Class A Common Stock or the Common Stock, the holders of Preferred

Stock shall be entitled to receive dividends at the rate per annum specified as to each series pursuant to paragraph (B)(1)(a), payable quarter-annually when and as declared by the board of directors.

Except as otherwise provided with respect to a particular series pursuant to paragraph (B)(1)(a), dividends shall accrue, in the case of shares of each particular series:

- (i) if issued prior to the record date for the first dividend on shares of such series, then from the date of initial original issue of shares of such series;
- (ii) if issued during the period commencing immediately after the record date for a dividend on shares of such series and terminating at the close of the payment date for such dividend, then from such last mentioned dividend payment date; and
- (iii) otherwise from the quarterly dividend payment date next preceding the date of original issue of such shares;

provided, that if the date of initial original issue of shares of any series shall be within thirty (30) days prior to the date when the first quarter-annual dividend would otherwise be payable, the board of directors may provide that such first dividend shall be payable only at the time of payment of the dividend for the next quarter-annual period, in which case no deficiency in payment of such first dividend shall exist by reason of such deferral.

All dividends of Preferred Stock shall be cumulative so that if the corporation shall not pay the quarterly dividend, or any part thereof, on the Preferred Stock then issued and outstanding, such deficiency in the dividend on the Preferred Stock shall thereafter be fully paid, but without interest, before any cash dividend shall be paid or set apart for payment on either the Class A Common Stock or the Common Stock.

Any dividend paid upon the Preferred Stock at a time when any accrued dividends for any prior period are delinquent shall be expressly declared as a dividend in whole or partial payment of the accrued dividend for the earliest period for which dividends are then delinquent, and shall be so designated to each shareholder to whom payment is made.

All shares of Preferred Stock shall rank equally and shall share ratably, in proportion to the rate of dividend fixed pursuant to paragraph (B)(1)(a) in respect to each such share, in all dividends paid or set aside for payment for any dividend period or part thereof upon any such shares.

### (3) Liquidation, Dissolution or Winding Up.

In case of voluntary or involuntary liquidation, dissolution or winding up of the corporation, the holders of shares of each series of Preferred Stock shall be entitled to receive out of the assets of the corporation in money or money's worth the applicable amount specified pursuant to paragraph (B)(1)(c) with respect to that series of Preferred Stock, together with all accrued but unpaid dividends thereon (whether or not earned or declared), before any of such assets shall be paid or distributed to holders of Class A Common Stock or Common Stock, and if

the assets of the corporation shall be insufficient to pay the holders of all of the Preferred Stock then outstanding the entire amounts to which they may be entitled, the holders of each outstanding series of the Preferred Stock shall share ratably in such assets in proportion to the amounts which would be payable with respect to such series if all amounts payable thereon were paid in full. The consolidating or merger of the corporation with or into any other corporation or corporations, or the merger of any other corporation or corporations into the corporation, in pursuance of the laws of the State of Delaware and of any other applicable state providing for consolidation or merger, shall not be deemed a liquidation, dissolution or winding up of the affairs of the corporation within the meaning of the foregoing provisions of this subsection (B)(3), unless otherwise provided pursuant to paragraph (B)(1)(c).

(C) Preemptive Rights.

No holder of Preferred, Class A Common Stock or Common Stock shall be entitled, as of right because of his ownership of such stock, to subscribe for, purchase or receive any part of any new or additional issue of stock, whether Preferred Stock, Class A Common Stock or Common Stock, or of bonds, debentures or other securities convertible into stock, or any part of any reacquired shares or convertible securities held in treasury, but all such shares of stock or bonds, debentures or other securities convertible into stock may be issued and disposed of by the board of directors to such person or persons and on such terms and for such consideration (so far as may be permitted by law) as the board of directors in its absolute discretion may deem advisable. The provisions of this section (C) shall not impair any conversion right of any such convertible securities or any other right authorized by the board of directors to purchase or exchange, or to receive any distribution of, any securities of the corporation.

(D) Special Voting Rights of Stockholders

(1) Subject to the voting rights of holders of Preferred Stock as may be established pursuant to subsection (B)(1) of this Article 4, the holders of Class A Common Stock and the holders of Common Stock shall be entitled to vote, and to vote as separate classes, upon the authorization of any amendment to this Certificate of Incorporation, and, in addition to the authorization of any such amendment by vote of a majority of the total number of votes represented by all outstanding shares entitled to vote thereon, the amendment shall be authorized by vote of a majority of the total number of votes represented by all outstanding shares of the Class A Common Stock and/or the Common Stock if such amendment contains any provision which would:

(a) exclude or limit their right to vote on any matter, except as such right may be limited by voting rights given to new shares then being authorized of any existing or new class or series,

(b) reduce the par value of their shares; or change their shares into a different number of shares of the same class or into the same or a different number of shares of any one or more classes or any series thereof, either with or without par value; or fix, change or abolish the designation or any of the relative rights, preferences and limitations of their shares, including any provision in respect to any undeclared dividends, whether or not cumulative or accrued, or the

redemption of any shares, or any sinking fund for the redemption or purchase of their shares, or any preemptive right to acquire shares or other securities; or alter the terms or conditions upon which their shares are convertible or change the shares issuable upon conversion of their shares; if any such action would adversely affect such holders, or

(c) subordinate their rights, by authorizing shares having preferences which would be in any respect superior to those rights.

(2) Any plan of merger or consolidation shall be adopted at a meeting of stockholders by a vote of two-thirds of the total number of votes represented by the outstanding shares entitled to vote thereon. The holders of shares of a class or series shall be entitled to vote and to vote as a class if the plan of merger or consolidation contains any provision which, if contained in an amendment to the Certificate of Incorporation, would entitle the holders of shares of such class or series to vote and vote as a class thereon pursuant to subsection (D)(1) of this Article 4. In such case, in addition to the authorization of the plan of merger or consolidation by vote of two-thirds of the total number of votes represented by all outstanding shares entitled to vote thereon, the plan of merger or consolidation shall be authorized by vote of the majority of the total number of votes represented by all outstanding shares entitled to vote thereon. Any plan of merger or consolidation of any subsidiary corporation or corporations, whether domestic or foreign, with and into the corporation shall not be subject to the provisions of this subsection (D)(2) if the corporation owns at least ninety percent of the outstanding shares of each class of capital stock of such subsidiary corporation or corporations.

For the purposes of this subsection (D)(2), the financial or other effect of any merger or consolidation on the corporation shall not be deemed to affect adversely the powers, preferences or rights of any class or series of stock.

(3) Any sale, lease, exchange or other disposition of all or substantially all the assets of the corporation, if not made in the usual or regular course of the business actually conducted by the corporation shall be authorized by vote at a meeting of stockholders of two-thirds of the total number of votes represented by all outstanding shares entitled to vote thereon.

(4) Any amendment to the Certificate of Incorporation of the corporation which adds a provision specifying that any stockholders, or the holders of any specified number or proportion of shares, or of any specified number or proportion of shares of any class or series thereof, may require the dissolution of the corporation at will or upon the occurrence of a specified event, or which changes or strikes out such a provision, shall be authorized at a meeting of stockholders by a vote of a majority of the total votes represented by all outstanding shares, whether or not otherwise entitled to vote on any such amendment.

(5) Any amendment to the Certificate of Incorporation of the corporation which changes or strikes out any provision specifying that the proportion of shares, or the proportion of shares of any class or series thereof, the holders of which shall be present in person or by proxy at any meeting of stockholders in order to constitute a quorum for transaction of any business or of any specified item of business, including amendments to this Certificate of Incorporation shall be greater than the proportion prescribed by law in the absence of such



provision, or any provision specifying that the proportion of votes of the holders of shares, or of the holders of shares of any class or series thereof, that shall be necessary at any meeting of stockholders for the transaction of any business or of any specified item of business, including amendments to this Restated Certificate of Incorporation, shall be greater than such proportion prescribed by law in the absence of such provision, shall be authorized at a meeting of stockholders by vote of two-thirds of the total number of votes represented by all outstanding shares entitled to vote thereon.

#### **ARTICLE 5**

The duration of the corporation is to be perpetual.

#### **ARTICLE 6**

The number of directors of the corporation shall be not less than five nor more than such number as shall be fixed by resolution of the board of directors from time to time.

#### **ARTICLE 7**

The board of directors shall have the following powers, in addition to those prescribed by law or by the By-Laws of the corporation;

(A) To make, alter, amend and repeal the By-Laws of the corporation, to the extent permitted by the law of Delaware.

(B) To elect or appoint from among their number an Executive Committee, which committee, to the extent and in the manner provided in the By-Laws of the corporation, shall have and may exercise all the powers of the board of directors, in the management of the business and affairs of the corporation, during the intervals between the meetings of the board of directors, so far as may be permitted by law, and such other standing committees as the board from time to time may determine to elect to appoint, which committees shall have and may exercise such powers as may be prescribed in the By-Laws or delegated to them by the board.

(C) From time to time to determine, so far as permitted by law, whether and to what extent, and at what time and places and under what conditions and regulations the accounts and books of the corporation, or any of them, shall be open to the inspection of stockholders, and no stockholder shall have any right to inspect any book or account or document of the corporation except as conferred by the laws of the State of Delaware or authorized by the board of directors.

(D) Subject to the provisions of the laws of the State of Delaware to hold their meetings either within or without the State of Delaware, to have one or more offices, and to keep the books of the corporation (except such books as are required by law to be kept at the office of the corporation in the State of Delaware) outside of the State of Delaware, and at such place or places as may from time to time be designated by them.

(E) To elect or appoint such officers, and to provide that the persons so elected or appointed shall have and may exercise such powers as may be prescribed from time to time by the By-Laws of the corporation.

---

#### **ARTICLE 8**

The corporation reserves the right to amend, alter, change or repeal any provision herein contained, in the manner now or hereafter prescribed by law, and all rights conferred on stockholders hereunder are granted subject to this provision.

#### **ARTICLE 9**

No director of the corporation shall be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

**IN WITNESS WHEREOF**, A. O. Smith Corporation has caused this Restated Certificate to be signed by Ajita G. Rajendra, its Chairman and Chief Executive Officer and attested by James F. Stern, its Secretary, this 11th day of April, 2016.

A. O. SMITH CORPORATION

By: /s/ Ajita G. Rajendra  
Ajita G. Rajendra, Chairman and  
Chief Executive Officer

ATTEST:

By: /s/ James F. Stern  
James F. Stern, Secretary

**A. O. SMITH CORPORATION  
INCENTIVE COMPENSATION AWARD AGREEMENT  
FOR**

**THIS AGREEMENT**, made and entered into this                    day of                    by and between A. O. Smith Corporation (hereinafter called the "Company") and                    (hereinafter called "Executive");

**WITNESSETH :**

**WHEREAS**, the Board of Directors of the Company has adopted the A. O. Smith Combined Incentive Compensation Plan, as amended and restated                   ,                    (hereinafter called the "Plan"), which is administered by the Personnel and Compensation Committee of the Board of Directors (hereinafter called the "Committee");

**WHEREAS**, the Executive, upon the terms and conditions herein set forth, will be a participant for the fiscal year of the Company commencing                   ,                    (hereinafter called the "Plan Year") under the Plan, the terms and conditions of which Plan are incorporated herein by reference; and

**WHEREAS**, this Agreement constitutes a separate contract such as is provided for in the Plan.

**NOW, THEREFORE**, in consideration of the payments herein provided, and of the covenants and agreements herein set forth, the parties hereby mutually covenant and agree as follows:

I. Awards. The Company, subject to the limitations of the Plan, shall provide the Executive the following Awards subject to the conditions set forth in the Plan.

A. Restricted Stock Units (Phantom Stock)

- (i) The Executive is hereby awarded                    Restricted Stock Units which shall vest based on the financial performance of the Company. The Restricted Stock Units shall vest on                   ,                    if the average of the Company's annual return on equity ("ROE") for calendar years                    through                    ("Performance Period") is equal to                    per cent (                    %) or more. ROE for each calendar year in the Performance Period shall be calculated by dividing the Company's net earnings for the calendar year by the average monthly stockholder equity during such year. If the average of the ROE for the Performance Period is less than                    per cent (                    %), then all Restricted Stock Units shall be forfeited.

- (ii) The calculation of ROE shall be adjusted by the Committee to account for non-reoccurring factors, extraordinary gains or losses; changes in accounting rules; acquisitions and divestures of more than \$ \_\_\_\_\_; stock issuances; or stock dividends.
- (iii) If the Restricted Stock Units vest on \_\_\_\_\_, \_\_\_\_\_ the Executive will receive \_\_\_\_\_ Shares of Company common stock as soon as practicable after the vesting date. The Executive will be subject to any tax withholding requirement at the time the Shares are issued or the Restricted Stock Units are vested.
- (iv) The Executive will be credited with dividends on Restricted Stock Units equivalent to the amount declared on the same number of actual shares of Company stock. This credit arises with respect to cash dividends with a record date on or after the date this Award is effective and on or before the vesting date. No later than January 31<sup>st</sup> following each year in which a dividend equivalent is credited, the amount of the dividend equivalents either will be credited to the Executive's Deferred Compensation Account in the Non-Qualified Deferred Compensation Plan, or will be paid to the Executive in cash if the Executive has no account under such plan. If the Executive's base salary is paid in a currency other than U.S. Dollars, any cash payment hereunder shall be converted to the same currency as the Executive's base salary using the exchange rate reported in the Wall Street Journal on the business day immediately prior to the date of payment.
- (v) Treatment of Restricted Stock Units upon termination:
  - a. If the Executive ceases to be an employee of the Company and its Affiliates prior to \_\_\_\_\_, \_\_\_\_\_ by reason of death, Disability or normal retirement (as defined in the A. O. Smith Retirement Plan for Salaried Employees), the Executive shall be entitled to receive the Shares if the Restricted Stock Units vest on \_\_\_\_\_, \_\_\_\_\_.
  - b. If the Executive ceases to be an employee of the Company and its Affiliates prior to \_\_\_\_\_, \_\_\_\_\_ by reason of early retirement and has attained age 57 and 10 years of service at the time of retirement, the Executive shall be entitled to receive the Shares if the Restricted Stock Units vest on \_\_\_\_\_, \_\_\_\_\_ provided the Executive was participating in the Plan on February 1, 2016 and was born on or before February 1, 1966. If the Executive was not participating in the Plan on February 1, 2016 and/or was born after February 1, 1966, the Executive shall be entitled to a pro-rata number of Shares based on the period of the Executive's employment during the three-year vesting period if the Restricted Stock Units vest on \_\_\_\_\_, \_\_\_\_\_.

- c. If the Executive's employment with the Company and its Affiliates is terminated prior to \_\_\_\_\_, \_\_\_\_\_ due to a "Qualifying Termination" as that term is defined in the A. O. Smith Corporation Senior Leadership Severance Plan, the Restricted Stock Units shall vest in accordance with the provisions of that plan.
  - d. If the Executive's employment terminates for any other reason prior to \_\_\_\_\_, \_\_\_\_\_ then this Award shall terminate immediately on the date of the Executive's employment termination, and the Restricted Stock Units and any credited cash dividend equivalent payments not yet paid shall be forfeited.
- (vi) In the event of a "Change in Control" of the Company, as defined in the A. O. Smith Corporation Senior Leadership Severance Plan, the Restricted Stock Units shall be treated in accordance with the provisions of that plan.
- (vii) The Executive shall not be deemed for any purposes to be a stockholder of the Company with respect to any of the Shares underlying the Restricted Stock Units except to the extent that such Shares have been issued in settlement of the Restricted Stock Units and stock certificates issued therefor.

B. Stock Option

- (i) The Company grants the Executive a Non-Qualified Stock Option to purchase from the Company an aggregate amount of \_\_\_\_\_ Shares of the common stock of the Company, authorized and unissued or, at the discretion of the Company, treasury stock if available.
- (ii) The price to be paid for the Shares upon exercise of this option shall be \_\_\_\_\_ per Share which is equal to the average of the high and low sales price of the Shares on the New York Stock Exchange on the grant date of \_\_\_\_\_, \_\_\_\_\_ (or on the immediately preceding trading day, if the grant date was not a trading day).
- (iii) This option is exercisable as follows:
  - a. \_\_\_\_\_ Shares become exercisable on \_\_\_\_\_ .
  - b. \_\_\_\_\_ Shares become exercisable on \_\_\_\_\_ .
  - c. \_\_\_\_\_ Shares become exercisable on \_\_\_\_\_ .

- (iv) The right to exercise the option expires on . This option may terminate prior to that date, however, as described in subsection (viii) below.
- (v) Except as provided below, this option may only be exercised by the Executive while in the employ of the Company or its Affiliates.
- (vi) This option may be exercised by the Executive through notice to the Company or its authorized administrator specifying the number of Shares in respect to which this option is being exercised, accompanied by payment for such Shares or through a cashless exercise as may be authorized by the Company.
- (vii) During the life of the Executive, this option may be exercised only by the Executive.
- (viii) This option shall be subject to the following events and shall be disposed of, or acted upon, in the manner set forth below:
  - a. If the Executive ceases to be an employee of the Company and its Affiliates by reason of Disability or Retirement, then this option shall terminate at the earlier of five (5) years from the date of termination of employment or , .
  - b. If the Executive ceases to be an employee of the Company and its Affiliates by reason of death then this option shall terminate at the earlier of one (1) year from the date of death or , .
  - c. If the Executive ceases to be an employee of the Company and its Affiliates as a result of a “Qualifying Termination”, as that term is defined in the A. O. Smith Corporation Senior Leadership Severance Plan, then this option shall be treated in accordance with the terms of that plan.
  - d. If the Executive’s employment is terminated by the Company or its Affiliates for “Cause”, as that term is defined in the A. O. Smith Corporation Senior Leadership Severance Plan, then this option shall terminate immediately upon such termination of employment.
  - e. If the Executive ceases to be an employee of the Company and its Affiliates due to an involuntary termination without “Cause” that is not a “Qualifying Termination,” as such terms are defined in the A.O. Smith Corporation Senior Leadership Severance Plan, then (i) the portion of this option that is not vested as of

the date of such termination shall terminate immediately upon such termination of employment, and (ii) the portion of the option that is vested as of the date of such termination of employment shall terminate the earlier of thirty (30) days from the date of such involuntary termination or \_\_\_\_\_, \_\_\_\_\_. Notwithstanding the above, if there is a “no trade window” in effect on the date of the Executive’s termination, the thirty (30) day period to exercise this option shall run from the date the “no trade window” expires.

- f. If the Executive ceases to be an employee of the Company and its Affiliates due to a voluntary resignation that is not a Qualifying Termination as defined in the A. O. Smith Corporation Senior Leadership Severance Plan, then (i) the portion of this option that is not vested as of the date of such termination shall terminate immediately upon such termination of employment, and (ii) the portion of the option that is vested as of the date of such termination of employment shall terminate the earlier of ninety (90) days from the date of such voluntary termination or \_\_\_\_\_, \_\_\_\_\_. Notwithstanding the above, if there is a “no trade window” in effect on the date of the Executive’s termination, the ninety (90) day period to exercise this option shall run from the date the “no trade window” expires.
  - g. In the event of a “Change in Control” of the Company, as defined in the A. O. Smith Corporation Senior Leadership Severance Plan, this option shall be treated in accordance with the provisions of that plan.
- (ix) The Executive agrees on behalf of the Executive, and the heirs, legatees, and legal representatives of the Executive, with respect to all Shares (or any Shares of the Company’s Common Stock issued pursuant to a stock dividend or stock split thereon or any securities issued in lieu thereof or in substitution or exchange therefor), that Executive, and the heirs, legatees, and legal representatives of Executive, will comply with such restrictions as may be necessary to satisfy the requirements of the Securities Act of 1933.
  - (x) The Executive shall not be deemed for any purposes to be a stockholder of the Company with respect to any of the Shares underlying this option except to the extent that this option shall have been exercised with respect thereto and a stock certificate issued therefor.
  - (xi) The existence of this option shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company’s capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock of, or affecting the common stock of, the Company or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or part of its assets or business, or any other Corporate act or proceeding, whether of a similar character or otherwise.



C. Performance Award

- (i) The Executive is hereby awarded \_\_\_\_\_ Performance Units with a value of \$ \_\_\_\_\_ per unit at the payment date. The Executive shall earn a percentage of the Performance Unit award upon achievement of a Performance Goal based on the Return on Invested Capital (“ROIC”) as a percentage of the cost of capital during the period January 1, \_\_\_\_\_ through December 31, \_\_\_\_\_. ROIC is calculated by taking net income before after-tax cost of interest divided by total capital. The Performance Goal is calculated as follows:

$$\text{ROIC as \% of cost of capital} = \frac{\text{Average ROIC during January 1, through December 31, Year End}}{\text{Cost of Capital}}$$

<u>Performance Goal</u>		<u>Percentage of Performance Units Earned</u>
Less than _____ %	_____ %	0%
_____ %	_____ %	50%
_____ %	_____ %	100%
_____ % or more	_____ %	200%

Percentage earned will be interpolated between points on the table.

- (ii) Performance awards which have been earned shall be paid in cash to the Executive no later than March 1, \_\_\_\_\_, \_\_\_\_\_. If the Executive’s base salary is paid in a currency other than U.S. Dollars, any payment earned shall be converted to the same currency as the Executive’s base salary using the exchange rate reported in the Wall Street Journal on the business day immediately prior to the date of payment.
- (iii) Performance Goals shall be adjusted by the Committee to account for non-reoccurring factors, extraordinary gains or losses; changes in accounting rules; acquisitions and divestures of more than \$ \_\_\_\_\_; stock issuances; or stock dividends.
- (iv) If the Executive ceases to be an employee of the Company and its Affiliates prior to December 31, \_\_\_\_\_ by reason of death, Disability, or \_\_\_\_\_

Retirement and has been employed by the Company or an Affiliate for at least twelve full months during the \_\_\_\_\_ year performance period, the Executive or his or her beneficiary shall be entitled to receive a pro-rata portion of the Award based on the period of the Executive's employment during the three-year performance period and based on actual performance measured at the end of the three-year performance period. Payment of the pro-rata portion will be made by no later than March 1, \_\_\_\_\_. If the Executive ceases to be an employee of the Company as a result of a "Qualifying Termination", as that term is defined in the A. O. Smith Corporation Senior Leadership Severance Plan, then this Performance Award shall be treated in accordance with the terms of that plan. If the Executive's employment with the Company shall be terminated prior to December 31, \_\_\_\_\_ for any other reason, no Award shall be payable.

- (v) In the event of a "Change in Control" of the Company, as defined in the A. O. Smith Corporation Senior Leadership Severance Plan, this Award shall be treated in accordance with the provisions of that plan.

D. Annual Incentive Compensation

- (i) The amount of the Executive's annual incentive compensation shall be based on the achievement of the performance goal(s) established for \_\_\_\_\_. The Committee shall determine the amount of the annual incentive compensation that may be earned, as well as the performance goals(s) that must be achieved. The potential incentive payout amount and the performance goal(s) will be communicated to the Executive by the Company. Annual incentive compensation, if earned, shall be paid in cash no later than March 1, \_\_\_\_\_. If the Executive's base salary is paid in a currency other than U.S. Dollars, any cash payment hereunder shall be converted to the same currency as the Executive's base salary using the exchange rate reported in the Wall Street Journal on the business day immediately prior to the date of payment.
- (ii) The calculation of the performance goal(s) shall be adjusted by the Committee to account for non-reoccurring factors, extraordinary gains or losses; changes in accounting rules; acquisitions and divestures of more than \$ \_\_\_\_\_; stock issuances; or stock dividends.
- (iii) If the Executive ceases to be an employee of the Company prior to December 31, \_\_\_\_\_ by reason of death, Disability, or Retirement, the Executive or his or her beneficiary shall be entitled to receive a pro-rata portion of the annual incentive compensation based on the period of time the Executive was employed during \_\_\_\_\_ and based on actual performance measured at the end of the annual performance period. Payment of the pro-rata portion will be made by no later than March 1, \_\_\_\_\_. If the Executive's employment with the Company shall be terminated prior to December 31, \_\_\_\_\_ for any other reason, no annual incentive compensation shall be paid except as may be provided in the A. O. Smith Corporation Senior Leadership Severance Plan.

- II. **Beneficiary.** In accordance with the Plan, the Executive, by completing, signing and returning to the Company a “Designation of Beneficiary,” shall have the right to designate a beneficiary to receive any payment of any Award (deferred or otherwise) and/or to exercise the option, remaining unpaid and/or unexercised at Executive’s death, all in the manner and to the extent set forth in this Agreement. The designation may be changed at any time by written notice delivered to the Company. If no Designation of Beneficiary is made, any Award remaining unpaid or unexercised, in whole or in part, at the time of death of the Executive, shall be paid to, or may be exercised by, his legal representative. The Executive cannot otherwise transfer any Award.
- III. **Withholding.** As to any payment of Shares or cash credited or paid pursuant to this agreement, the Committee may require that the Executive or his or her personal representative, as the case may be, agree to any procedure necessary to enable the Company to make adequate income tax withholdings.
- IV. **Nonassignability.** Neither Executive nor any of his or her beneficiaries shall have any right or power to alienate, anticipate, commute, pledge, encumber or assign any right to receive any amount which hereafter may become or at any time be due hereunder, and no attempt to effect any such alienation, anticipation, commutation, pledge, encumbrance or assignment will be recognized, honored or accepted by the Company.
- V. **Forfeiture.** So long as any portion of any Award (including amounts deferred), remains unpaid or undistributed, the Executive’s right to receive such amount shall be forfeited if the Executive at any time during or after his or her employment with the Company shall do any act, or engage directly or indirectly (whether as owner, partner, officer, employee or otherwise) in the operation or management of any business which, in the judgment of the Company, is detrimental to or in competition with the Company or any of its subsidiaries or affiliates.
- VI. **Clawback.** The Company may in its sole discretion and as allowed by law recoup amounts paid to the Executive under this Award Agreement in the event of (a) a financial restatement of the Company’s previously issued financial statements as a result of errors, omission, fraud, or noncompliance with any financial reporting requirement under the securities laws, or (b) any conduct by Executive, or concerning which Executive has direct knowledge, that is materially adverse to the Company (such conduct to include conduct that in the reasonable opinion of the Company: (i) warrants or could warrant the Executive’s dismissal; or (ii) is a violation of the Company’s Guiding Principles, or any law, regulation or listing standard (collectively, “Violation”), whether or not such Violation results in criminal prosecution or sanctions against Executive or the Company, and whether or not the Company learns of such Violation before or after the Executive’s termination of employment). In such circumstances, the Committee shall review the facts and circumstances underlying the restatement or Violation. After this review, if it is determined that an Award amount was based on the achievement of certain financial

results that were the subject of a restatement, or that the Violation subjected the Company to financial, reputational or other harm, the Committee may, in its discretion, require the Executive to reimburse the Company for all or a portion of any Award actually paid to the Executive or, if such Award has been deferred into the Non-Qualified Deferred Compensation Plan, forfeit the Award so deferred. In each such instance, the Company may forfeit (to the extent deferred) or seek to recover (to the extent paid) the amount by which the Executive's Award amount exceeded the lower amount, if any, that would have been made based on the restated financial results or the amount that, in the Company's sole discretion, the Company was harmed by such Violation. However, the Company will not seek such recovery where the payment occurred more than three years prior to the date the Company is required to prepare the applicable restatement. The Company will determine, in its sole discretion (but subject to the direction of the Committee), the method for obtaining reimbursement from the Executive. The Company may forfeit and/or recoup amounts paid in respect of an Award regardless of whether the Executive is still employed by the Company or an affiliate on the date forfeiture and/or reimbursement is required. Forfeiture of or recoupment of amounts paid in respect of an Award does not limit any other remedies that the Company may have.

VII. Defined Terms; Agreement. Except as otherwise specifically defined in this Award Agreement, the terms used in this Award Agreement shall have the same meaning as the terms defined in the Plan. By signing below, the Executive indicates his or her agreement to the terms of this Award Agreement and the Plan, that he or she has read this Award Agreement and the Plan, and that he or she understands that in the event of any inconsistency between the terms of this Agreement and the Plan, the terms of the Plan shall control.

VIII. Employment. As required by Section 6 of the Plan, Executive agrees to remain in the employ of the Company for a period of at least twelve (12) months, commencing on the first day of the month in which the Awards described in this Award Agreement are granted, or until Executive's earlier Retirement, at the pleasure of the Company. This Award Agreement does not, however, confer upon Executive any right to continue in employment, nor shall it, except during the period specified in the preceding sentence, restrict Executive's right to terminate employment at any time.

**IN WITNESS WHEREOF**, the Company has caused this instrument to be executed by its duly authorized officer, and the Executive has hereunto affixed his hand and seal, the day and year first above written.

A. O. SMITH CORPORATION

Ajita G. Rajendra  
Chairman, President and Chief Executive Officer

By: \_\_\_\_\_

**CERTIFICATION**

I, Ajita G. Rajendra, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A. O. Smith Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 9, 2016

/s/ Ajita G. Rajendra

Ajita G. Rajendra  
Chairman and Chief Executive Officer

**CERTIFICATION**

I, John J. Kita, certify that;

1. I have reviewed this quarterly report on Form 10-Q of A. O. Smith Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 9, 2016

/s/ John J. Kita

John J. Kita  
Executive Vice President and Chief Financial Officer



Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, the undersigned certifies that to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of A. O. Smith Corporation for the quarter ended March 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of A. O. Smith Corporation.

May 9, 2016

/s/ Ajita G. Rajendra

Ajita G. Rajendra  
Chairman and Chief Executive Officer

Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, the undersigned certifies that to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of A. O. Smith Corporation for the quarter ended March 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of A. O. Smith Corporation.

May 9, 2016

/s/ John J. Kita

John J. Kita  
Executive Vice President and Chief Financial Officer