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, 2012.

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)**	**39-0619790** **(I.R.S. Employer Identification No.)**
11270 West Park Place, Milwaukee, Wisconsin **(Address of principal executive office)**	**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 April 30, 2012 — 6,629,810 shares

Common Stock Outstanding as of April 30, 2012 — 39,731,141 shares

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A. O. Smith Corporation

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
Three Months ended March 31, 2012 and 2011
(dollars in millions, except for per share data)
(unaudited)

	Three Months Ended March 31	
	2012	2011
Continuing Operations		
Net sales	$ 468.6	$ 417.4
Cost of products sold	319.5	290.4
Gross profit	149.1	127.0
Selling, general and administrative expenses	105.3	89.3
Interest expense	3.0	1.8
Other (income) expense - net	(29.1)	2.2
	69.9	33.7
Provision for income taxes	22.4	9.5
Earnings from continuing operations	47.5	24.2
Discontinued Operations		
Earnings from discontinued EPC operations, less provision for income taxes of $5.7 in 2011	-	16.8
Net earnings	$ 47.5	$ 41.0
Net Earnings Per Share of Common Stock		
Continuing Operations	$ 1.03	$ 0.52
Discontinued Operations	-	0.37
Net Earnings	$ 1.03	$ 0.89
Diluted Net Earnings Per Share of Common Stock		
Continuing Operations	$ 1.02	$ 0.52
Discontinued Operations	-	0.36
Net Earnings	$ 1.02	$ 0.88
Dividends per share of Common Stock	$ 0.16	$ 0.14

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
Three Months ended March 31, 2012 and 2011
(dollars in millions)
(unaudited)

	Three Months Ended March 31	
	2012	2011
Net earnings	$ 47.5	$ 41.0
Other comprehensive earnings (loss)		
Foreign currency translation adjustments	2.8	3.2
Unrealized net gain (loss) on cash flow derivative instruments, less related income tax (provision) benefit of $(0.4) in 2012, $2.1 in 2011	0.6	(3.2)
Reversal of unrealized gain on investments less related tax benefit of $0.7 in 2012	(1.2)	-
Comprehensive Earnings	$ 49.7	$ 41.0

See accompanying notes to unaudited condensed consolidated financial statements.

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A. O. SMITH CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
March 31, 2012 and December 31, 2011
(dollars in millions)

	(unaudited) March 31, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	$ 367.2	$ 463.4
Marketable securities	60.9	-
Receivable from sale of securities	64.7	-
Receivables	386.7	368.4
Inventories	172.2	168.4
Deferred income taxes	32.0	24.6
Investments	-	162.4
Other current assets	23.0	21.5
Total Current Assets	1,106.7	1,208.7
Property, plant and equipment	628.5	614.0
Less accumulated depreciation	308.6	298.7
Net property, plant and equipment	319.9	315.3
Goodwill	435.1	433.8
Other intangibles	349.6	352.7
Other assets	38.9	38.5
Total Assets	$ 2,250.2	$ 2,349.0
Liabilities		
Current Liabilities		
Trade payables	$ 302.8	$ 302.5
Accrued payroll and benefits	32.8	41.9
Accrued liabilities	90.7	74.1
Product warranties	44.1	43.7
Long-term debt due within one year	18.6	18.6
Current liabilities - discontinued EPC operations	13.4	31.5
Total Current Liabilities	502.4	512.3
Long-term debt	300.6	443.0
Pension liabilities	142.1	139.5
Other liabilities	156.1	159.7
Long-term liabilities - discontinued EPC operations	8.3	8.7
Total Liabilities	1,109.5	1,263.2
Stockholders' Equity		
Class A Common Stock, $5 par value: authorized 14,000,000 shares; issued 6,664,002 and 7,250,791	33.3	36.3
Common Stock, $1 par value: authorized 60,000,000 shares; issued 41,012,909 and 40,426,119	41.0	40.4
Capital in excess of par value	651.0	652.5
Retained earnings	770.0	729.9
Accumulated other comprehensive loss	(298.7)	(300.9)
Treasury stock at cost	(55.9)	(72.4)
Total Stockholders' Equity	1,140.7	1,085.8
Total Liabilities and Stockholders' Equity	$ 2,250.2	$ 2,349.0

See accompanying notes to unaudited condensed consolidated financial statements

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A. O. SMITH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months ended March 31, 2012 and 2011
(dollars in millions)
(unaudited)

	Three Months Ended March 31	
	2012	2011
Operating Activities		
Net earnings	$ 47.5	$ 41.0
Less earnings from discontinued operations	-	(16.8)
Adjustments to reconcile earnings from continuing operations to cash provided by (used in) operating activities:		
Depreciation and amortization	13.4	10.8
Gain on sale of investments	(27.2)	-
Net changes in operating assets and liabilities, net of acquisitions:		
Current assets and liabilities	(21.4)	(45.6)
Noncurrent assets and liabilities	2.7	(41.7)
Cash Provided by (Used in) Operating Activities - continuing operations	15.0	(52.3)
Cash Used in Operating Activities - discontinued operations	(18.5)	0.1
Cash Used in Operating Activities	(3.5)	(52.2)
Investing Activities		
Capital expenditures	(13.1)	(12.4)
Investment in marketable securities	(60.9)	-
Net proceeds from sale of securities	122.9	-
Cash Provided by (Used in) Investing Activities - continuing operations	48.9	(12.4)
Cash Used in Investing Activities - discontinued operations	-	(3.1)
Cash Provided by (Used in) Investing Activities	48.9	(15.5)
Financing Activities		
Long-term debt (retired) incurred	(143.1)	77.2
Common stock repurchases	-	(5.7)
Net proceeds from stock option activity	8.8	7.9
Dividends paid	(7.3)	(6.4)
Cash (Used in) Provided by Financing Activities - continuing operations	(141.6)	73.0
Cash Provided by Financing Activities - discontinued operations	-	-
Cash (Used in) Provided by Financing Activities	(141.6)	73.0
Net (decrease) increase in cash and cash equivalents	(96.2)	5.3
Cash and cash equivalents - beginning of period	463.4	118.9
Cash and Cash Equivalents - End of Period	$ 367.2	$ 124.2

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, 2012
(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, 2012 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 latest Annual Report on Form 10-K filed with the SEC on February 27, 2012.

Except where otherwise indicated, amounts reflected in the financial statements or the notes thereto relate to the company's continuing operations.

Certain other prior year amounts have been reclassified to conform to the 2012 presentation.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." ASU No. 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of shareholders' equity. ASU 2011-05 will be effective for the quarter ending March 31, 2012. The adoption of this guidance will have no impact on our financial condition or results of operations but does impact the presentation of our financial statements. The company has presented the Statements of Comprehensive Earnings for all periods presented.

In September 2011, the FASB issued ASU No. 2011-08, "Testing of Goodwill for Impairment (Topic 350)". ASU No. 2011-08 allows companies to assess qualitative factors to determine whether the two-step quantitative goodwill impairment test needs to be performed. Under the option, an entity no longer would be required to calculate the fair value of a reporting unit unless it determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The ASU may change how a company tests goodwill for impairment but should not change the timing or measurement of goodwill impairments. ASU 2011-08 will be effective for the year ending December 31, 2012. The company is currently reviewing the standard for applicability.

2. Acquisition

On August 26, 2011, the company acquired 100 percent of the shares of Lochinvar Corporation (Lochinvar), a privately held manufacturer of high-efficiency boilers used in commercial and residential applications located in Lebanon, Tennessee. The addition of Lochinvar expands the company's product offerings and gives the company access to proven high-efficiency boiler technology. Lochinvar is included in the North America segment.

2. Acquisition (continued)

The company paid an aggregate cash purchase price, net of $1.5 million of cash acquired, of $421.1 million. In addition, the company incurred acquisition costs of approximately $5.5 million. Under the purchase agreement for the Lochinvar acquisition, the company agreed to make a contingent payment of up to an additional $35.0 million in cash based on the amount by which Lochinvar sales between December 1, 2011 and November 30, 2012 exceed $216.0 million. As of the acquisition date and March 31, 2012, the fair value of the contingent payment has been estimated at $16.8 million.

The following table summarizes the allocation of fair value of the assets acquired and liabilities assumed at the date of acquisition. Of the $258.3 million of acquired intangible assets, $103.5 million has been assigned to trade names that are not subject to amortization and $152.5 million has been assigned to customer lists which are being amortized over 19 years, and the remaining $2.3 million has been assigned to non-compete agreements and patents which are being amortized over ten years.

August 26, 2011 (dollars in millions)	
Current assets, net of cash acquired	$ 54.0
Property, plant and equipment	41.9
Intangible assets	258.3
Other assets	0.1
Goodwill	111.4
Total assets acquired	465.7
Current liabilities	24.3
Long-term liabilities	3.5
Total liabilities assumed	27.8
Net assets acquired	$437.9

For income tax purposes, the transaction has been accounted for as an asset purchase, resulting in the full amount of goodwill and intangible assets, totaling $369.7 million, being deductible for income tax purposes.

Lochinvar's results of operations have been included in the company's financial statements from August 26, 2011, the date of acquisition. Revenues and pretax earnings associated with Lochinvar included in operations in the quarter ended March 31, 2012 totaled $49.3 million and $9.9 million, respectively.

The following table represents the pro forma unaudited results of operations for the company for the quarter ended March 31, 2011 assuming consummation of the purchase of Lochinvar as of January 1, 2011 (dollars in millions except per share data):

	Three Months Ended March 31, 2011
Net sales	$ 459.8
Earnings from continuing operations	28.7
Earnings per common share:	
Basic	$ 0.62
Diluted	$ 0.62

The pro forma results have been prepared for informational purposes only and include adjustments to depreciation expense of acquired plant and equipment, amortization of intangible assets other than goodwill and trade names, increased interest expense on acquisition related debt, and certain other adjustments, together with related income tax effects of such adjustments. These pro forma

2. Acquisition (continued)

results do not purport to be indicative of the results of operations that would have occurred had the purchases been made as of the beginning of the period presented or of the results of operations that may occur in the future.

3. Discontinued Operations

On August 22, 2011, the company completed the sale of its Electrical Products Company (EPC) to Regal Beloit Corporation (RBC) for $759.9 million in cash and approximately 2.83 million of RBC shares. Included in the $759.9 million of cash was a final working capital adjustment of $7.4 million which was paid to the company by RBC in January 2012. The value of the RBC shares on the date of the closing of the sale was $140.6 million. See Note 14 for further discussion regarding the company's investment in RBC stock. The company paid $24.6 million in income taxes and $2.3 million of other sale related expenses in the first quarter of 2012 and estimates it will pay an additional $10.6 million of income taxes in 2012.

As a part of the sale of EPC, the company recorded an additional income tax accrual of $56.5 million due to the company's assertion that certain foreign earnings derived from the sale of EPC were not considered permanently reinvested by the company. The accrual is included in other long term liabilities in continuing operations.

The results of EPC have been reported separately as discontinued operations for all periods presented.

The condensed statement of earnings of the EPC discontinued operations is:

Three Months Ended March 31 (dollar in millions)	2011
Net sales	$200.4
Cost of products sold	155.2
Gross Profit	45.2
Selling, general and administrative expenses	22.0
Interest expense	0.8
Other income	(0.1)
	22.5
Provision for income taxes	5.7
Net earnings	$ 16.8

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3. Discontinued Operations (continued)

The cash flow provided by EPC discontinued operations is as follows:

Three months ended March 31 (dollars in millions)

	2011
Operating Activities	
Earnings	$ 16.8
Adjustments to reconcile earnings to net cash provided by discontinued operating activities:	
Depreciation and amortization	6.5
Loss on sale of assets	-
Net changes in operating assets and liabilities	
Current assets and liabilities	(23.5)
Noncurrent assets and liabilities	1.4
Other	(1.1)
Cash Provided by (Used in) Discontinued Operating Activities	0.1
Investing Activities	
Capital expenditures	(3.1)
Cash Used in Discontinued Investing Activities	(3.1)
Cash Flow Used in Discontinued Operations	$ (3.0)

4. Inventories

	(dollars in millions)	
	March 31, 2012	December 31, 2011
Finished products	$ 88.7	$ 85.6
Work in process	11.6	10.6
Raw materials	97.0	98.9
	197.3	195.1
LIFO reserve	(25.1)	(26.7)
	$ 172.2	$ 168.4

5. Long-Term Debt

The company has a $425 million multi-currency revolving credit agreement with eight banks. The facility expires on November 13, 2013 and has an accordion provision which allows it to be increased up to $525 million if certain conditions (including lender approval) are satisfied. Interest rates on borrowings under the facility are determined in part based upon the company’s leverage ratio.

Borrowings under bank credit lines and commercial paper borrowings are supported by the $425 million revolving credit agreement. As a result of the long-term nature of this facility, the commercial paper and credit line borrowings are classified as long-term debt at March 31, 2012.

6. Product Warranties (dollars in millions)

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.

	Three Months Ended March 31	
	2012	2011
Balance at January 1	$ 131.9	$ 112.1
Expense	15.4	18.2
Claims settled	(15.3)	(14.0)
Balance at March 31	$ 132.0	$ 116.3

The company recorded a receivable of approximately $14.6 million at March 31, 2011 relating to certain costs it expected to recover from a vendor under an arrangement which existed prior to entering into litigation with the vendor in Tennessee State Court. The company settled with the vendor and the vendor's supplier in the second quarter of 2011 and received a cash payment of $35.5 million.

7. 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	
	2012	2011
Denominator for basic earnings per share - weighted average shares	46,103,193	46,000,013
Effect of dilutive stock options	385,143	540,458
Denominator for diluted earnings per share	46,488,336	46,540,471

8. Stock Based Compensation

The company adopted the A. O. Smith Combined Incentive Compensation Plan (the "plan") effective January 1, 2007. The plan is a continuation of the A. O. Smith Combined Executive Incentive Compensation Plan which was originally approved by stockholders in 2002. At the company's annual meeting of stockholders on April 16, 2012 the plan was reauthorized by stockholders and the number of shares available for granting of options or share units at March 31, 2012 was 1,644,334. Upon stock option exercise or share unit vesting, shares are issued from treasury stock.

Total stock based compensation cost recognized in the three month periods ended March 31, 2012 and 2011 was $2.4 million and $2.4 million, respectively.

Stock Options

The stock options granted in the three month periods ended March 31, 2012 and 2011, 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 2012 and 2011 expire ten years after date of grant. Options are expensed ratably over the three year vesting period. Stock based compensation cost attributable to stock options

8. Stock Based Compensation (continued)

in the three month periods ended March 31, 2012 and 2011 was $1.1 million and $1.2 million, respectively. Included in the stock option expense for the three month periods ended March 31, 2012 and 2011 is 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.

Changes in option awards, all of which relate to Common Stock, were as follows for the three months ended March 31, 2012:

	Weighted-Avg. Per Share Exercise Price	Three Months Ended March 31, 2012	Average Remaining Contractual Life	Aggregate Intrinsic Value (dollars in millions)
Outstanding at January 1, 2012	$ 24.84	1,421,867		
Granted	45.97	190,600		
Exercised	23.64	(315,450)		
Outstanding at March 31, 2012	28.23	1,297,017	7 years	$ 21.9
Exercisable at March 31, 2012	$ 22.90	929,373	7 years	$ 20.5

The weighted-average fair value per option at the date of grant during the three months ended March 31, 2012 and 2011 using the Black-Scholes option-pricing model was $16.52 and $16.50, respectively. Assumptions were as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Expected life (years)	6.2	6.4
Risk-free interest rate	2.0%	3.6%
Dividend yield	1.4%	1.3%
Expected volatility	39.4%	38.4%

The expected life is based on historical exercise behavior and the projected exercise 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 expected life of the option. The expected dividend yield is based on the expected annual dividends divided by the grant date market value of our common stock. The expected volatility is based on the historical volatility of our common stock.

Restricted Stock and Share Units

Participants may also be awarded shares of restricted stock or share units under the plan. The company granted 83,800 and 75,625 share units under the plan in the three month periods ended March 31, 2012 and 2011, respectively. The share units were valued at $3.9 million and $3.3 million at the date of issuance in 2012 and 2011, respectively, based on the company's stock price at the date of grant and will be recognized as compensation expense ratably over the three-year vesting period. Share based compensation expense attributable to share units of $1.3 million and $1.2 million was recognized in the three month periods ended March 31, 2012 and 2011, respectively. Share based compensation expense recognized in the three month periods ended March 31, 2012 and 2011 included expense associated with accelerated vesting of share

8. Stock Based Compensation (continued)

unit awards for certain employees who either are retirement eligible or will become retirement eligible during the vesting period.

A summary of share unit activity under the plan is as follows:

	Number of Units	Weighted-Average Grant Date Value
Issued and unvested at January 1, 2012	286,554	$ 27.36
Granted	83,800	45.97
Vested	(132,974)	18.80
Issued and unvested at March 31, 2012	237,380	$ 38.72

9. Pensions (dollars in millions)

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

	Three Months Ended March 31	
	2012	2011
Service cost	$ 2.0	$ 2.4
Interest cost	10.8	11.2
Expected return on plan assets	(17.2)	(17.5)
Amortization of unrecognized loss	8.0	5.7
Amortization of prior service cost	(0.2)	(0.2)
Defined benefit plan expense	$ 3.4	$ 1.6

The company made contributions totaling $45 million in the three months ended March 31, 2011 and does not anticipate making a contribution in 2012. Included in the table above is $0.5 million of defined benefit plan expense associated with the company's discontinued operations for the three months ended March 31, 2011.

10. Operations by Segment

Prior to the sale of EPC the company had identified two segments, Water Products Company and EPC. As a result of the sale of EPC and a change in management reporting, the company reconsidered its segment reporting in the fourth quarter of 2011 and determined that it is comprised of two reporting segments: North America and Rest of World. Both segments manufacture and market comprehensive lines of residential gas, gas tankless, oil and electric water heaters and commercial water heating equipment. Both segments primarily serve their respective regions of the world. The North America segment also manufactures and markets specialty commercial water heating equipment, condensing and non-condensing boilers and water system tanks. The Rest of World segment also manufactures and markets water treatment products, primarily in Asia.

10. Operations by Segment (continued)

(dollars in millions)

	Three Months Ended March 31	
	2012	2011
Net sales		
North America	$ 353.3	$ 321.7
Rest of World	124.2	105.2
Inter-segment sales	(8.9)	(9.5)
	$ 468.6	$ 417.4
Operating earnings		
North America	$ 42.2	$ 38.1
Rest of World	14.2	10.8
	56.4	48.9
Corporate income (expense)[(1)]	16.5	(13.4)
Interest expense	(3.0)	(1.8)
Earnings before income taxes	69.9	33.7
Provision for income taxes	22.4	9.5
Earnings from continuing operations	$ 47.5	$ 24.2
[(1)] Includes net gain (loss) on investments	$ 27.2	$ (1.6)

11. Fair Value Measurements

The company adopted Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures (formerly Statement of Financial Accounting Standards (SFAS) 157) on January 1, 2008. ASC 820, 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.

Continuing 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.

Assets measured at fair value on a recurring basis are as follows (dollars in millions):

Fair Value Measurement Using	March 31, 2012	December 31, 2011
Quoted prices in active markets for identical assets (Level 1)	$ 61.5	$ 144.2
Significant other observable inputs (Level 2)	-	17.8
Total assets measured at fair value	$ 61.5	$ 162.0

11. Fair Value Measurements (continued)

There were no changes in our valuation techniques used to measure fair values on a recurring basis as a result of adopting ASC 820.

12. Derivative Instruments

ASC 815 Derivatives and Hedging (formerly SFAS No. 133), 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, cash flow hedge, or a hedge of a net investment in a foreign operation.

The company designates that all of its hedging instruments, except for its equity collar contract relating to RBC shares, 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 income (OCI), 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 and equity investment volatility. 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. Principal currencies include the Canadian dollar, Mexican peso, Chinese renminbi and Euro.

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 and all of the hedges will be

12. Derivative Instruments (continued)

reclassified into earnings no later than December 31, 2013. Contracts related to the company's discontinued operations that expired after the closing date no longer qualified for hedge accounting; therefore, the change in valuation during the three months ended March 31, 2011 of $2.3 million was recorded in earnings from discontinued operations.

The following table summarizes, by currency, the contractual amounts of the company's foreign currency forward contracts for continuing operations.

March 31 (dollars in millions)	2012		2011	
	Buy	Sell	Buy	Sell
Euro	$12.2	$ 0.9	$ 2.8	$ 1.7
Canadian dollar	-	27.4	-	41.9
Mexican peso	13.9	-	8.8	-
Chinese renminibi	5.7	-	-	-
Total	$31.8	$28.3	$11.6	$43.6

Commodity Futures Contracts

In addition to entering into supply arrangements in the normal course of business, the company, primarily for its discontinued operation prior to its disposition, also entered into futures contracts to fix the cost of certain raw material purchases, principally copper and aluminum, 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.

The minimal after-tax loss of the effective portion of the contracts as of March 31, 2012 was 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. Contracts related to the company's discontinued operations that expired after the closing date no longer qualified for hedge accounting; therefore, the change in valuation during the three months ended March 31, 2011 of $(0.6) million was recorded in earnings from discontinued operations. Commodity hedges outstanding at March 31, 2012 involve a total of approximately 0.3 million pounds of copper.

Equity Collar Contract

As discussed in Note 3, on August 22, 2011, the company sold EPC to RBC and received approximately 2.83 million RBC shares. The RBC share price appreciated in the first quarter of 2011 during which the company entered into an equity collar contract for 50 percent of the RBC shares to protect a portion of that appreciation. The put strike price of the equity collar was $63.29 and the call strike price of the collar was $77.32. The collar did not qualify for hedge accounting and therefore was adjusted to fair value on a quarterly basis through earnings from continuing operations. The mark to market accounting for the RBC shares and hedge continued until the equity collar contract expired in March of 2012 with no value.

12. Derivative Instruments (continued)

The impact of derivative contracts on the company's financial statements is as follows (dollars in millions):

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

(dollars in millions)	Balance Sheet Location	Fair Value March 31, 2012	Fair Value December 31, 2011
Commodities contracts	Accrued liabilities	$ -	$ (0.1)
Foreign currency contracts	Accrued liabilities	(0.2)	(1.6)
	Other current assets	0.8	1.3
Total derivatives designated as hedging instruments		$ 0.6	$ (0.4)

Fair value of derivative not designated as a hedging instrument under ASC 815 in continuing operations:

(dollars in millions)	Balance Sheet Location	Fair Value March 31, 2012	Fair Value December 31, 2011
Equity collar contract	Investments	$ -	$ 17.9
Total derivatives not designated as hedging instruments		$ -	$ 17.9

The effect of derivatives designated as hedging instruments under ASC 815 on the Statement of Earnings for continuing and discontinued operations:

Year to date March 31:

Derivatives in ASC 815 cash flow hedging relationships	Amount of gain/(loss) recognized in OCI on derivative (effective portion) 2012	2011	Location of gain/(loss) reclassified from Accumulated OCI into earnings (effective portion)	Amount of gain/(loss) reclassified from Accumulated OCI into earnings (effective portion) 2012	2011	Location of gain/(loss) recognized in earnings on derivative (ineffective portion)	Amount of gain/(loss) recognized in earnings on a derivative (ineffective portion) 2012	2011
Commodities contracts	$ 0.1	$(0.1)	Cost of products sold	$ -	$ 0.3	Cost of products sold	$ -	$ -
			Discontinued operations	-	3.5	Discontinued operations	-	-
Foreign currency contracts	0.6	0.5	Cost of products sold	(0.3)	-	N/A	-	-
	-	-	Discontinued operations	-	1.9	Discontinued operations	-	-
	$ 0.7	$ 0.4		$(0.3)	$ 5.7		$ -	$ -

Derivatives not designated as a hedging instrument under ASC 815	Location of loss recognized in earnings from continuing operations on derivative	Amount of loss recognized in earnings from continuing operations on derivative 2012	2011
Equity collar contract	Other expense -net	$ 17.9	$ 1.6

13. Income Taxes

The effective tax rate for the three months ended March 31, 2012 was 32.0 percent compared to 28.2 percent for the first three months of 2011. The company estimates that the tax rate for the full year of 2012 will be 30.0 percent excluding the tax on the gain on sale of the RBC shares disposed of in the first quarter which was taxed at a higher rate. The full year effective tax rate in 2011 was 31.1 percent.

As of March 31, 2012, the company had $1.8 million of unrecognized tax benefits from continuing operations of which $1.3 million would affect its effective tax rate if recognized. The company recognizes potential interest and penalties related to unrecognized tax benefits as a component of tax expense.

The company's U.S. federal tax returns for 2008-2011 are subject to audit. The company is subject to state and local audits for tax years 2000-2011. The company is also subject to non-U.S. income tax examinations for years 2005-2011.

14. Investment in RBC Shares

As discussed in Note 3, the company received approximately 2.83 million of RBC shares as a part of the proceeds of its sale of EPC to RBC. The value of those shares at December 31, 2011 was $144.4 million. One half of the RBC shares were classified as available for sale securities and were recorded at fair value with an unrealized after-tax gain of $1.2 million included in other comprehensive loss as of December 31, 2011. The company entered into an equity collar contract for the remaining half of the RBC shares that were classified as trading securities. Those shares were also recorded at fair value. See Note 12 for further discussion regarding the collar. During the first quarter of 2012, the company sold all of its RBC shares for net proceeds of $187.6 million or an average price of $66.19 per share. A pre-tax gain of $27.2 million was recorded in other (income) expense–net in the condensed consolidated statement of earnings. The $27.2 million is comprised of a $43.2 million gain on the sale of the RBC shares, the recognition of a $1.9 million gain recognized in other comprehensive earnings at December 31, 2011 as partially offset by the write off of $17.9 million, the value of the collar at December 31, 2011. The proceeds received during the first quarter of 2012 of $122.9 million were used to pay down debt. The remaining proceeds of $64.7 million were recorded as a receivable as of March 31, 2012.

PART I - FINANCIAL INFORMATION

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

OVERVIEW

We are a leading manufacturer of water heaters and boilers, serving a diverse mix of residential and commercial end markets principally in North America and China. During the fourth quarter of 2011, we reorganized our management reporting structure to reflect our current business activities and reconsidered our reporting segments. Historical information has been revised to reflect our new structure. Our company is comprised of two reporting segments: North America and Rest of World. Both segments manufacture and market comprehensive lines of residential gas, gas tankless, oil and electric water heaters and commercial water heating equipment. Both segments primarily serve their respective regions of the world. The North America segment also manufactures and markets specialty commercial water heating equipment, condensing and non-condensing boilers and water systems tanks. The Rest of World segment also manufactures and markets water treatment products, primarily for China.

On August 22, 2011, we sold our Electrical Products Company (EPC) to Regal Beloit Corporation (RBC) for approximately $760 million in cash and approximately 2.83 million shares of RBC shares. Due to the sale, EPC has been reflected as a discontinued operation in the accompanying financial statements for all periods presented. For further information about EPC, see Note 3 to the Condensed Consolidated Financial Statements.

Sales in our North America segment grew approximately ten percent in the first quarter. Our recent Lochinvar acquisition added $49.3 million to first quarter sales. Driven by a transition in the boiler industry from non-condensing boilers to condensing boilers, we expect Lochinvar sales growth to be in excess of ten percent over their historical performance. The residential and commercial markets for our water heaters have been impacted for the last several years by the relatively low number of housing starts and lack of commercial construction activity, although we expect a significant portion of our sales will continue to be for replacement. We expect the residential water heater industry's growth in sales to be essentially flat and commercial water heater industry's growth in sales to be slightly negative for the total year.

In August 2011, we acquired Lochinvar Corporation (Lochinvar) for approximately $421 million plus an earnout of up to $35 million if certain objectives are achieved by November 30, 2012. Lochinvar's sales for the twelve months ended November 30, 2011 (Lochinvar's former fiscal year end) were approximately $200 million and have grown at an eight percent compounded annual growth rate over the last five years. Lochinvar is a leader in the manufacture of high-efficiency, hydronic boilers used in commercial and residential applications.

Our sales in our Rest of World segment grew approximately 18.0 percent in the first quarter of 2012, primarily as a result of growth in sales of A. O. Smith branded products in China. We expect A. O. Smith branded products sales in China to continue to grow at a rate of two times the growth in China gross domestic product (GDP) as geographic expansion, new store openings and new product introductions contribute to our growth. This segment also includes our operations in India, Europe and the Middle East.

RESULTS OF OPERATIONS
FIRST THREE MONTHS OF 2012 COMPARED TO 2011

Our sales for the first quarter of 2012 were $468.6 million or 12.3 percent higher than sales of $417.4 million in the first quarter of 2011. Included in our 2012 first quarter sales is $49.3 million of sales from Lochinvar which we acquired in August 2011. An approximate 18.0 percent increase in sales of A. O. Smith branded products in China partially offset by lower sales of U.S. residential and commercial water heaters also contributed to the increase in sales.

Our first quarter gross profit margin increased from 30.4 percent in 2011 to 31.8 percent in 2012. The higher margin in 2012 was due to the impact of the addition of relatively higher margin sales from our Lochinar acquisition and increased sales of A. O. Smith branded products in China.

Selling, general and administrative (SG&A) expense for the first quarter of 2012 was $105.3 million or $16.0 million higher than the first quarter of 2011. The increase in SG&A in 2012 was due to higher selling and advertising costs in support of increased volumes in China and $11.5 million of additional expenses from Lochinvar operations.

Net other income was $29.1 million in the first quarter of 2012 and compared to net other expense of $2.2 million in the first quarter of 2011. The net other income of $29.1 million in 2012 is comprised mostly of a $27.2 million pretax net gain on the sale of RBC shares as well as $2.3 million of interest income partially derived from investing the foreign proceeds of the 2011 sale of EPC. The $27.2 million is comprised of a $43.2 million gain on the sale of the RBC shares, the recognition of a $1.9 million gain recognized in other comprehensive earnings at December 31, 2011 as partially offset by the write off of $17.9 million, the value of the collar at December 31, 2011. During the first quarter of 2012, we sold all of our RBC shares for net proceeds of $187.6 million or an average price of $66.19 per share. The $2.2 million of net other expense in 2011 was comprised mostly of $1.6 million expense associated with mark to market accounting associated with the RBC shares and associated equity collar contract.

Our effective tax rate for the first quarter of 2012 was 32.0 percent compared to 28.2 percent in the same period last year. The higher rate in 2012 was due mostly to the tax on the gain on sale of RBC shares which was taxed at a higher rate.

We have significant pension costs and credits that 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 8.50 percent in 2012 compared to 8.75 percent in 2011. The discount rate used to determine net periodic pension costs decreased from 5.35 percent in 2011 to 4.90 percent in 2012. Pension expense for the first quarter of 2012 was $3.4 million or $2.2 million higher than the first quarter of 2011. Our pension costs are reflected in cost of products sold and SG&A expense.

North America

Sales for the North America segment were $353.3 million in the first quarter of 2012 or $31.6 million higher than sales of $321.7 million in the first quarter of 2011. The additional sales of $49.3 million from our Lochinvar acquisition were partially offset by lower sales of U.S. residential and commercial water heaters compared with last year. Last year’s first quarter benefitted from customers adding to their inventories in advance of an April 2011 price increase. Commercial gas water heater volumes were also lower in the 2012 quarter as an increase in air quality standards in Southern California prompted customers to accelerate purchases for this region in advance of the January 1, 2012 standard change.

Operating earnings for North America were $42.2 million in the first quarter of 2012 or 10.8 percent higher than earnings of $38.1 million in the same period of 2011. The additional $9.9 million of operating earnings from the Lochinvar acquisition was partially offset by the impact of lower U.S. residential and commercial volumes and higher steel costs. The 2012 first quarter operating margin of 11.9 percent improved slightly from 11.8 percent in the same period last year.

Rest of World

Sales for our Rest of World segment were $124.2 million in the first quarter of 2012 or $19.0 million higher than sales of $105.2 million in the first quarter of 2011. The increase in sales was due to an approximate 18.0 percent increase in sales of A. O. Smith branded products in China resulting from new distribution outlets as well as customer purchases in advance of a second quarter 2012 price increase.

Operating earnings for our Rest of World segment were $14.2 million in the first quarter of 2012 or 31.5 percent higher than earnings of $10.8 million in the first quarter of 2011. The improved earnings in the first quarter of 2012 were due to the effect of higher sales in China and a reduction in the loss incurred by our A. O. Smith (Shanghai) Water Treatment Products Co., Ltd. (SWT).

Outlook

Although the U.S. economy is showing some positive signs of recovery including some positive data in the new construction sector, we have not fully recovered from the recession. We expect little to no benefit from new construction in 2012 as our water heater business tends to lag behind new construction by six to nine months. However, our North American replacement water heater business remains solid. Sales at Lochinvar continue to grow as expected and we project growth in 2012 to be in excess of ten percent over their historical performance.

Based on results to date, we have increased our estimate for 2012 earnings to a range of $2.75 to $2.90 per share. This range does not include the potential impact from any future acquisitions or the first quarter gain related to the RBC shares. Our previously announced disciplined acquisition strategy continues to progress. We believe we have the human capital, well-established processes, and the financial resources to manage additional acquisitions that will create value for our shareholders. We continue to seek water heating, boiler and water treatment companies in fast-growing geographies, as well as companies with new technologies or adjacencies to our core business.

Liquidity & Capital Resources

Our working capital for continuing operations of $617.7 million at March 31, 2012, was $110.2 million lower than at December 31, 2011, primarily due to the sale of our RBC shares which were received as a result of our divestiture of EPC, the proceeds of which were used to repay debt. The sale of the shares more than offset the $18.3 million increase in accounts receivable, primarily in China.

Cash provided by continuing operating activities during the first quarter of 2012 was $15.0 million compared with $52.3 million used during the same period last year as a result of higher earnings and improved working capital. In addition, 2011 cash flow included a $45 million pension contribution. For the total year 2012, we expect our total cash provided by continuing operating activities operations to be approximately $145 to $155 million. Cash used by discontinued operations during the first quarter of 2012 included $24.6 million of income tax payments partially offset by a $7.4 million final working capital adjustment we received from RBC.

Our capital expenditures totaled $13.1 million during the first quarter of 2012, compared with $12.4 million spent one year ago. We are projecting 2012 capital expenditures to be between $80 and $90 million, including approximately $40 million to begin construction of a second water heater manufacturing plant in Nanjing, China to meet local demand. The new plant which is expected to be completed in mid 2013 is expected to eventually add 50 percent more capacity to our China water heater operations. We also plan to expand our India plant in 2012 to accommodate more water heater models, in-source some component manufacturing and meet local demand. Full year depreciation and amortization is expected to be approximately $55 million.

During the first quarter of 2012, we sold all of our shares of RBC for $187.6 million or an average of $66.19 per share. The majority of the proceeds was received before March 31, 2012 and used to pay down borrowing under our revolving credit facility during the first quarter. The proceeds received after March 31, 2012, or $64.7 million were recorded as a receivable as of March 31, 2012 and were used to pay down revolving credit facility debt during the first week of April.

In the first quarter of 2012, we invested $60.9 million of our cash located in China into bank certificates of deposits with maturities ranging from 180 days to 360 days, which resulted in a reclassification from cash to marketable securities.

In November 2010, we completed a $425 million multi-currency credit facility with eight banks which expires in November 2013. The facility has an accordion provision which allows it to be increased up to $525 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, 2012.

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, 2012, we had available borrowing capacity of $204.2 million under this facility. We believe the combination of available borrowing capacity and operating cash flow will provide sufficient funds to finance our existing operations for the foreseeable future.

Our total debt decreased $142.4 million from $461.6 million at December 31, 2011 to $319.2 million at March 31, 2012, primarily related to the sale of our RBC shares. Our leverage, as measured by the ratio of total debt to total capitalization, was 21.9 percent at the end of the quarter, compared with 29.8 percent at the end of last year.

Our pension plan continues to meet all funding requirements under ERISA regulations. We do not expect to make contributions to the plan in 2012. We contributed $45 million to the plan in the first quarter of 2011.

In December 2010, our board of directors ratified its authorization of a stock repurchase program in the amount of 1,500,000 shares of our common stock. During the first quarter 2011, we repurchased 136,200 shares. We did not repurchase any shares in the first quarter of 2012. A total of approximately 888,000 remain in the existing repurchase authority.

On April 16, 2012, our board of directors declared a regular cash dividend of $.16 per share on our common stock and Class A common stock. The dividend is payable on May 15, 2012 to shareholders of record on April 30, 2012.

Critical Accounting Policies

The preparation of our consolidated financial statements is in conformity with accounting principles generally accepted in the United States which requires the use of estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future 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, 2011. We believe that at March 31, 2012 there has been no material change to this information.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income.” ASU No. 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of shareholders’ equity. ASU 2011-05 will be effective for the quarter ending March 31, 2012. The adoption of this guidance will have no impact on our financial condition or results of operations but does impact the presentation of our financial statements. The company has presented the Statements of Comprehensive Earnings for all periods presented.

In September 2011, the FASB issued ASU No. 2011-08, “Testing of Goodwill for Impairment (Topic 350)”. ASU No. 2011-08 allows companies to assess qualitative factors to determine whether the two-step quantitative goodwill impairment test needs to be performed. Under the option, an entity no longer would be required to calculate the fair value of a reporting unit unless it determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The ASU may change how a company tests goodwill for impairment but should not change the timing or measurement of goodwill impairments. ASU 2011-08 will be effective for the year ending December 31, 2012. The company is currently reviewing the standard for applicability.

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, 2011, 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 minimize 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, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of March 31, 2012 to ensure that information required to be disclosed by the Company in the reports it files or submits 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 the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

Changes in internal control over financial reporting

There have been no significant changes in the Company's internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Forward Looking Statements

This filing contains statements that the company believes 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. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this filing. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following: difficulties in integrating the Lochinvar acquisition or achieving the disclosed accretion, cost synergies and/or global expansion opportunities related to the acquisition; weakening in the high efficiency boiler market or slowdown in the transition from non-condensing to condensing boilers in the United States; the ability to execute our acquisition strategy; significant volatility in raw material prices; competitive pressures on the company's businesses; inability to implement pricing actions; instability in the company's water products markets; further weakening in housing construction; further weakening in commercial construction; timing of any recoveries in housing or commercial construction; a slowdown in the Chinese economy; 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.

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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 16 of the Notes to Consolidated Financial Statements in the company's Form 10-K Report for the year ended December 31, 2011, which is incorporated herein by reference.

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

On December 14, 2007, the company's board of directors approved a new stock repurchase program authorizing the purchase of up to 1,500,000 shares of the company's common stock, and in December 2010, our board of directors ratified that authorization. This stock repurchase authorization remains effective until terminated by the company's board of directors. The following table sets forth the number of shares of common stock the company repurchased during the first quarter of 2012.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
January 1 – January 31, 2012	-	-	-	888,411
February 1 – February 29, 2012	-	-	-	888,411
March 1 – March 31, 2012	-	-	-	888,411

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS

Refer to the Exhibit Index on page 26 of this report.

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.

A. O. SMITH CORPORATION

May 7, 2012

/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

Exhibit Number	Description
10.1	Form of A. O. Smith Corporation Incentive Compensation Award Agreement
31.1	Certification of Periodic Report by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Periodic Report by 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, 2012 are furnished herewith, formatted in XBRL (Extensive Business Reporting Language): (i) the Condensed Consolidated Statement of Earnings for the three months ended March 31, 2012 and 2011, (ii) the Condensed Consolidated Statement of Comprehensive Earnings for the three months ended March 31, 2012 and 2011, (iii) the Condensed Consolidated Balance Sheets as of March 31, 2012, and December 31, 2011 (iv) the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2012 and 2011 (v) the Notes to Condensed Consolidated Financial Statements

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");

W I T N E S S E T H :

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. Employment. Executive agrees to remain in the employ of the Company for the entire Plan Year, but it is understood that the Executive's employment may be terminated at any time by the Company.

II. 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 percent (%) 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 Company's ROE for the Performance Period is less than percent (%), 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; stock dividends; or stock buybacks in excess of Shares per calendar year.

(iii) If the Restricted Stock Units vest on , , the Executive will receive Shares of Company 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.

(iv) The Executive will be credited with dividends on Restricted Stock Units equivalent to the amount declared on 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. These dividend equivalents will be credited on January 31st following each calendar year to the Executive's Deferred Compensation Account in the Non-Qualified Deferred Compensation Plan. If the Executive's Deferred Compensation Account in the Non-Qualified Deferred Compensation Plan has been paid in full prior to the time such credit would otherwise be made, then he shall receive a cash payment for the dividend equivalents on January 31st following each calendar year for which they are credited.

(v) If the Executive ceases to be an employee of the Company and its Affiliates prior to , by reason of death, Disability, or Retirement, the Executive shall be entitled to receive Shares if the Restricted Stock Units vest on , . 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. 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) 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) This option may be exercised only by the Executive during the life of 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 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 this option shall terminate ninety (90) days from the date of the Executive's termination due to such voluntary resignation. 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.

e) 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.

f) 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 this option shall terminate thirty (30) days from the date of such involuntary termination. 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.

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

(ix) Executive agrees on behalf of Executive, and the heirs, legatees, and legal representatives of 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) 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 shall receive an award of   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 including all debt and stockholders' equity. The Performance Goal is calculated as follows:

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

Performance Goal	Percentage of Performance Units Earned
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; acquisitions and divestures of more than $; stock issuances; stock dividends; or stock buybacks in excess of Shares.

(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 beneficiary shall be entitled to receive a pro-rata portion of the Award based on the period of his 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 Company's return on stockholder equity ("ROE") during . The Committee shall establish the target levels of ROE. Annual incentive compensation shall be paid no later than March 1, .

(ii) The calculation of ROE shall be adjusted by the Committee to account for non-reoccurring factors, extraordinary gains or losses; changes in accounting; acquisitions and divestures of more than $; stock issuances; stock dividends; or stock buybacks in excess of Shares.

(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 beneficiary shall be entitled to receive a pro-rata portion of the annual incentive compensation based on the period of time he 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.

III. Beneficiary. In accordance with the Plan, the Executive, by completing and signing a "Designation of Beneficiary" shall have the right to designate a beneficiary to receive any payment of any Award (deferred or otherwise) remaining unpaid 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 Committee or its representative. If no Designation of Beneficiary is made, any Award remaining unpaid, in whole or in part, at the time of death of the Executive, shall be paid to his legal representative. The Executive cannot otherwise transfer any Award.

IV. 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 personal representative, as the case may be, agree to any procedure necessary to enable the Company to make adequate income tax withholdings.

V. Nonassignability. Neither Executive nor any of his 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.

VI. 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 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.

VII. Clawback. To the extent permitted or required by governing law or regulation or applicable listing standards, the Company may under certain circumstances recoup amounts paid to the Executive under this Award Agreement. In the event of a 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, the Committee shall review the facts and circumstances underlying the restatement. 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, 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. 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 or for a time period when the Executive was not an "executive officer." The term "executive officer" has the meaning given that term in Rule 3b-7 under the Securities Exchange Act of 1934 determined as of the date the Company made the payment in respect of the Award. 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.

VIII. 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 and that he or she has read this Award Agreement and the Plan.

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

Chairman and Chief Executive Officer

By ____

“Executive”

<u>Exhibit 31.1</u>

CERTIFICATION

I, Paul W. Jones, 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 changes 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 7, 2012

/s/ Paul W. Jones

Paul W. Jones
Chairman and Chief Executive Officer

<u>Exhibit 31.2</u>

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 changes 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 7, 2012

/s/ John J. Kita

John J. Kita
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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 Form 10-Q of A. O. Smith Corporation for the quarter ended March 31, 2012 (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 7, 2012

/s/ Paul W. Jones

Paul W. Jones
Chairman and Chief Executive Officer

Exhibit 32.2

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 Form 10-Q of A. O. Smith Corporation for the quarter ended March 31, 2012 (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 7, 2012

/s/ John J. Kita

John J. Kita
Executive Vice President and Chief Financial Officer