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

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2009.

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

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**A. O. Smith Corporation**

(Exact name of registrant as specified in its charter)

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(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)

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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 July 31, 2009 — 5,572,735 shares

Common Stock Outstanding as of July 31, 2009 — 24,582,874 shares

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**PART I—FINANCIAL INFORMATION****ITEM 1—FINANCIAL STATEMENTS**

A. O. SMITH CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
Three and Six Months ended June 30, 2009 and 2008  
(dollars in millions, except for per share data)  
(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Water Products	\$ 337.1	\$ 380.8	\$ 676.1	\$ 732.9
Electrical Products	162.4	242.4	306.1	462.9
Inter-segment sales	(0.8)	(1.1)	(1.8)	(2.2)
Net Sales	498.7	622.1	980.4	1,193.6
Cost of products sold	376.3	480.6	756.5	919.5
Gross Profit	122.4	141.5	223.9	274.1
Selling, general and administrative expenses	88.6	94.4	173.3	188.5
Restructuring and other charges	—	1.2	1.5	5.7
Interest expense	3.1	5.3	6.3	10.9
Other (income)/expense - net	0.7	(0.1)	1.5	(0.4)
	30.0	40.7	41.3	69.4
Provision for income taxes	6.1	9.5	8.8	17.0
Earnings before equity loss in joint venture and discontinued operations	23.9	31.2	32.5	52.4
Equity loss in joint venture	(0.2)	(0.1)	(0.2)	(0.2)
Earnings from continuing operations	23.7	31.1	32.3	52.2
Discontinued SICO operations	—	0.2	—	0.3
<b>Net earnings</b>	<b>23.7</b>	<b>31.3</b>	<b>32.3</b>	<b>52.5</b>
Less: Net earnings attributable to noncontrolling interest	(2.4)	(21.8)	(8.3)	(36.6)
<b>Net earnings attributable to A. O. Smith Corporation</b>	<b>\$ 21.3</b>	<b>\$ 9.5</b>	<b>\$ 24.0</b>	<b>\$ 15.9</b>
<b>Earnings per Common Share</b>				
<b>Basic</b>				
Before discontinued operations	\$ 0.85	\$ 0.98	\$ 1.38	\$ 1.64
Discontinued operations	—	0.02	—	0.03
Net	<u>\$ 0.85</u>	<u>\$ 1.00</u>	<u>\$ 1.38</u>	<u>\$ 1.67</u>
<b>Diluted</b>				
Before discontinued operations	\$ 0.84	\$ 0.98	\$ 1.38	\$ 1.64
Discontinued operations	—	0.02	—	0.03
Net	<u>\$ 0.84</u>	<u>\$ 1.00</u>	<u>\$ 1.38</u>	<u>\$ 1.67</u>
<b>Dividends to A. O. Smith Shareholders</b>	<u>\$ 0.19</u>	<u>\$ 0.18</u>	<u>\$ 0.38</u>	<u>\$ 0.36</u>

See accompanying notes to unaudited condensed consolidated financial statements

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A. O. SMITH CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
June 30, 2009 and December 31, 2008  
(dollars in millions)

	(unaudited) June 30, 2009	December 31, 2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 53.5	\$ 35.3
Receivables	370.6	363.5
Inventories	226.0	282.0
Deferred income taxes	41.4	64.2
Other current assets	26.0	46.6
Current assets - discontinued SICO operations	—	31.9
<b>Total Current Assets</b>	<u>717.5</u>	<u>823.5</u>
Property, plant and equipment	994.0	980.7
Less accumulated depreciation	585.0	561.6
Net property, plant and equipment	409.0	419.1
Goodwill	507.6	505.1
Other intangibles	77.8	78.3
Deferred income taxes	41.1	52.3
Other assets	38.8	50.4
<b>Total Assets</b>	<u>\$ 1,791.8</u>	<u>\$ 1,928.7</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade payables	\$ 246.1	\$ 274.8
Accrued payroll and benefits	36.8	44.1
Derivative contracts liability	15.7	73.0
Accrued liabilities	54.0	61.9
Product warranties	38.1	40.2
Long-term debt due within one year	21.1	17.5
Current liabilities - discontinued SICO operations	—	3.3
<b>Total Current Liabilities</b>	<u>411.8</u>	<u>514.8</u>
Long-term debt	272.3	317.3
Pension liabilities	250.2	264.0
Other liabilities	153.9	156.8
<b>Total Liabilities</b>	<u>1,088.2</u>	<u>1,252.9</u>
<b>Redeemable Stock</b>	—	12.6
<b>Stockholders' Equity</b>		
Class A Common Stock, \$5 par value: authorized 14,000,000 shares; issued 5,818,107 and 8,067,252	29.1	40.3
Common Stock, \$1 par value: authorized 60,000,000 shares; issued 26,588,453 and 1,559,076	26.6	1.6
Capital in excess of par value	655.7	(41.6)
Retained earnings	319.9	316.1
Accumulated other comprehensive loss	(243.4)	(89.8)
Treasury stock at cost	(84.3)	—
Noncontrolling interest	—	436.6
<b>Total Stockholders' Equity</b>	<u>703.6</u>	<u>663.2</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 1,791.8</u>	<u>\$ 1,928.7</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

A. O. SMITH CORPORATION  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
Six Months ended June 30, 2009 and 2008  
(dollars in millions)  
(unaudited)

	Six Months Ended June 30	
	2009	2008
<b>Continuing</b>		
<b>Operating Activities</b>		
Earnings from continuing operations	\$ 32.3	\$ 52.2
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	33.5	33.6
Net changes in operating assets and liabilities, net of acquisitions:		
Current assets and liabilities	31.4	(67.0)
Noncurrent assets and liabilities	(3.9)	(0.9)
Other	0.3	2.4
<b>Cash Provided by Operating Activities</b>	<u>93.6</u>	<u>20.3</u>
<b>Investing Activities</b>		
Capital expenditures	(21.6)	(25.4)
Net cash distributed with spin-off of discontinued businesses	(7.1)	—
Acquisition of business	(0.4)	—
Proceeds from sale of restricted marketable securities	8.9	12.0
<b>Cash Used in Investing Activities</b>	<u>(20.2)</u>	<u>(13.4)</u>
<b>Financing Activities</b>		
Long-term debt repaid	(45.6)	(11.6)
Dividends paid	(9.6)	(9.2)
<b>Cash Used in Financing Activities</b>	<u>(55.2)</u>	<u>(20.8)</u>
<b>Discontinued</b>		
Cash used in discontinued operations	—	(0.4)
Net increase (decrease) in cash and cash equivalents	18.2	(14.3)
Cash and cash equivalents - beginning of period	35.3	54.9
<b>Cash and Cash Equivalents - End of Period</b>	<u>\$ 53.5</u>	<u>\$ 40.6</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**  
**June 30, 2009**  
**(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 for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. 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 and six month periods ended June 30, 2009 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 and the S-4/A filed with the Securities and Exchange Commission on March 11, 2009.

On April 22, 2009, the company closed on the merger of Smith Investment Company (SICO) into a subsidiary of A. O. Smith Corporation (the company). The merger was approved by the company's stockholders on April 14, 2009.

The transaction between the company and SICO has been accounted for as a reverse acquisition with SICO as the accounting acquirer and the company as the accounting acquiree (which is the surviving entity for legal purposes). As this is a common control transaction under FAS 141(R) *Business Combinations*, the transaction is accounted for as an equity transaction under FAS 160 *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. The acquisition of a noncontrolling interest does not require purchase accounting.

Furthermore, because SICO is the continuing reporting entity for accounting purposes, the reports filed by the company as the surviving corporation in the transaction will parallel the financial reporting required under United States generally accepted accounting principles and SEC reporting rules as if SICO were the legal successor to its reporting obligation as of the date of the transaction. Accordingly, prior period financial information presented in the company's financial statements reflects the historical activity of SICO.

On January 19, 2009, SICO completed the distribution of all of its ownership interests in the assets and liabilities primarily related to the multicolor printing business conducted through Berlin Industries and the commercial warehousing, trucking and packaging business conducted through Central States. For periods prior to this distribution, the results of operations, net assets and cash flows for these businesses have been classified as discontinued operations in the accompanying financial statements.

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### 2. Inventories (dollars in millions)

	June 30, 2009	December 31, 2008
Finished products	\$161.7	\$ 221.6
Work in process	51.7	55.7
Raw materials	103.5	125.1
	316.9	402.4
LIFO reserve	(90.9)	(120.4)
	<u>\$226.0</u>	<u>\$ 282.0</u>

### 3. Restricted Marketable Securities

The company acquired GSW Inc. (GSW) on April 3, 2006. GSW operated a captive insurance company (Captive) to provide product liability and general liability insurance to its subsidiary American Water Heater Company (American). The company decided to cover American's prospective liability exposures with its existing insurance programs and all product liability claims for events which occurred prior to July 1, 2006 will be financed by the Captive. The reinsurance company restricts the amount of capital which must be maintained by the Captive and this restricted amount was \$17.3 million at June 30, 2009. The \$17.3 million is invested in short-term securities and is included in other non-current assets on the company's balance sheet on June 30, 2009. The company liquidated approximately \$8.9 million and \$12.0 million of short-term securities in the first half of 2009 and 2008, respectively. The company used the proceeds to pay down debt.

### 4. Long-Term Debt

The company has a \$425 million multi-currency revolving credit agreement with eight banks. The facility expires in 2011 and 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 the company's leverage ratio.

Borrowings under the 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.

### 5. 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 for the six months ended June 30, 2009 and 2008, respectively.

	2009	2008
Balance at January 1	\$ 111.8	\$105.5
Expense	34.7	39.2
Claims settled	(38.4)	(32.8)
Balance at June 30	<u>\$108.1</u>	<u>\$ 111.9</u>

**6. Reconciliation of Consolidated Total Stockholders' Equity (dollars in millions)**

Presented below is a roll forward of Total Stockholders' Equity from December 31, 2008 to June 30, 2009. Included in this reconciliation are adjustments that reflect the reverse acquisition between SICO and A. O. Smith, with SICO as the accounting acquirer and A. O. Smith as the accounting acquiree. In accordance with SFAS 141(R) and SFAS 160, the reverse acquisition is treated as an equity transaction with SICO as the successor company for accounting purposes.

	<u>Class A Stock</u>	<u>Common Stock</u>	<u>Capital in Excess of Par</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehen- sive Loss</u>	<u>Treasury Stock</u>	<u>Non- controlling Interest</u>	<u>Total Equity</u>
Balance at January 1, 2009	\$ 40.3	\$ 1.6	\$ (41.6)	\$ 316.1	\$ (89.8)	\$ —	\$ 436.6	\$ 663.2
Net earnings	—	—	—	24.0	—	—	8.3	32.3
Dividends declared	—	—	—	—	—	—	(7.8)	(7.8)
Comprehensive gain	—	—	—	—	26.1	—	12.3	38.4
Activity related to spin off of SICO discontinued businesses	—	—	—	(32.8)	—	—	—	(32.8)
Reverse acquisition of SICO	0.5	22.7	687.0	12.6	(179.7)	(84.3)	(449.4)	9.4
Stock conversions	(11.7)	2.3	9.4	—	—	—	—	—
Stock based compensation activity	—	—	0.9	—	—	—	—	0.9
Balance at June 30, 2009	<u>\$ 29.1</u>	<u>\$ 26.6</u>	<u>\$ 655.7</u>	<u>\$ 319.9</u>	<u>\$ (243.4)</u>	<u>\$ (84.3)</u>	<u>—</u>	<u>\$ 703.6</u>



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**7. Comprehensive Earnings (dollars in millions)**

The company's comprehensive earnings are comprised of net earnings, foreign currency translation adjustments, adjustments to minimum pension liability and post retirement obligations, and realized and unrealized gains and losses on cash flow derivative instruments.

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Net earnings attributable to A. O. Smith Corporation	\$ 21.3	\$ 9.5	\$ 24.0	\$15.9
Other comprehensive earnings (loss):				
Foreign currency translation adjustments	2.0	3.4	0.2	11.7
Reclassification adjustment for foreign exchange gains included in net earnings	—	(2.9)	—	(2.9)
Adjustment to additional minimum pension liability and post retirement obligation less related income tax provision (benefit) of: 2009 - \$1.1 and \$1.1, 2008 - \$(2.2) and \$(2.2)	1.7	(3.5)	1.7	(3.5)
Unrealized net (loss) gains on cash flow derivative instruments less related income tax provision (benefit): 2009 - \$11.7 and \$23.4, 2008 - \$(0.5) and \$4.8	18.2	(0.7)	36.5	7.5
Less comprehensive earnings attributable to noncontrolling interest	(1.0)	2.6	(12.3)	(8.7)
Reclass of Accumulated Comprehensive Loss associated with noncontrolling interest	(179.7)	—	(179.7)	—
Comprehensive earnings (loss)	<u>\$ (137.5)</u>	<u>\$ 8.4</u>	<u>\$ (129.6)</u>	<u>\$20.0</u>

**8. Earnings per Share of Common Stock**

The numerator for the calculation of basic and diluted earnings per share is net earnings attributable to A. O. Smith Corporation and excludes the noncontrolling interest. The following table sets forth the computation of basic and diluted weighted-average shares used in the earnings per share calculations:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Denominator for basic earnings per share - weighted average shares	25,106,099	9,483,492	17,355,114	9,483,492
Effect of dilutive stock options, restricted stock and share units	104,524	—	45,347	—
Denominator for diluted earnings per share	<u>25,210,623</u>	<u>9,483,492</u>	<u>17,400,461</u>	<u>9,483,492</u>

**8. Earnings per Share of Common Stock (continued)**

The weighted average shares presented above have been impacted by the accounting treatment of the company's transaction with SICO which closed on April 22, 2009 and is discussed in more detail in Note 1 to the Notes to Condensed Consolidated Financial Statements. The primary accounting impact of the SICO transaction is in the calculation of earnings per share since the accounting rules require the use of SICO adjusted average shares outstanding rather than A. O. Smith Corporation average shares outstanding prior to the closing. The SICO adjusted average shares outstanding reflect the historical shares of SICO multiplied by their exchange ratio from the April 22, 2009 merger transaction. Subsequent to the closing, A. O. Smith Corporation average shares are used in the calculation.

**9. 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 shareholders in 2002. The plan provides for the issuance of stock options, shares of restricted stock or share units. At the company's annual meeting of stockholders on April 14, 2009, an amendment to the plan was approved to increase the authorized shares of Common Stock under the plan by 1,250,000. Additionally, any shares that would have been available for stock options, restricted stock or share units under the predecessor plan, if that plan was in effect, will be available for granting of share based awards under the plan. The number of shares available for granting of options, shares of restricted stock or share units at June 30, 2009 was 1,677,541. Upon stock option exercise, restricted stock grant, or share unit vesting, shares are issued from Treasury stock.

Total stock based compensation cost recognized in the three month periods ended June 30, 2009 and 2008 was \$1.2 million and \$1.1 million, respectively. Total stock based compensation cost recognized in the six month periods ended June 30, 2009 and 2008 was \$2.7 million and \$2.9 million, respectively.

*Stock Options*

The stock options granted in the six month periods ended June 30, 2009 and 2008, 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 2009 and 2008 expire ten years after date of grant. Options are expensed ratably over the three year vesting period. Stock option compensation cost in each of the three month periods ended June 30, 2009 and 2008 was \$0.4 million. Stock option compensation cost recognized in the six month periods ended June 30, 2009 and 2008 was \$1.0 million and \$1.1 million, respectively. Included in the stock option expense for the six month periods ended June 30, 2009 and 2008 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.

**9. Stock-Based Compensation (continued)**

Changes in option shares, all of which are Common Stock, were as follows for the six months ended June 30, 2009:

	Weighted- Avg. Per Share Exercise Price	Six Months Ended June 30, 2009	Average Remaining Contractual Life	Aggregate Intrinsic Value (dollars in millions)
Outstanding at January 1, 2009	\$ 28.40	1,289,067		
Granted	28.39	330,500		
Exercised	—	—		
Outstanding at June 30, 2009	28.40	<u>1,619,567</u>	7 years	\$ 8.5
Exercisable at June 30, 2009	\$ 26.98	<u>1,080,067</u>	5 years	<u>\$ 7.1</u>

The weighted-average fair value per option at the date of grant during the six months ended June 30, 2009 and 2008, using the Black-Scholes option-pricing model, was \$8.18 and \$11.82, respectively. Assumptions were as follows:

	Six Months Ended June 30,	
	2009	2008
Expected life (years)	6.4	6.4
Risk-free interest rate	2.8%	3.7%
Dividend yield	2.8%	2.0%
Expected volatility	35.0%	35.1%

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 respective 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 105,534 and 143,508 share units under the plan in the six month periods ended June 30, 2009 and 2008, respectively. Included in the grant in the six month period ended June 30, 2008, are share units granted on April 30, 2008 which are subject to performance conditions and which will vest on December 31, 2010. The ultimate number of share units that will vest will range from zero to 96,000 based on the average of the company's annual return on equity for the eleven quarters ending December 31, 2010. Compensation expense will be recognized ratably over the vesting period as long as achievement of the performance conditions is considered probable. The share units were valued at \$3.0 million and \$4.8 million at the date of issuance in 2009 and 2008, respectively, based on the company's stock price at the date of grant, and in each case, such value will be recognized as compensation expense ratably over the three-year vesting period. Share based compensation expense attributable to restricted stock and share units of \$0.8 million and \$0.7 million was

**9. Stock-Based Compensation (continued)**

recognized in the three month periods ended June 30, 2009 and 2008, respectively. Share based compensation expense attributable to restricted stock and share units of \$1.7 million and \$1.8 million was recognized in the six month periods ended June 30, 2009 and 2008, respectively. Share based compensation expense recognized in the six month periods ended June 30, 2009 and 2008 included 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.

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

	<u>Number of Units</u>	<u>Weighted-Average Grant Date Value</u>
Outstanding at January 1, 2009	231,982	\$ 35.40
Granted	105,534	28.25
Vested	<u>(21,000)</u>	36.03
Outstanding at June 30, 2009	<u>316,516</u>	\$ 32.98

**10. Pensions (dollars in millions)**

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Service cost	\$ 1.9	\$ 2.0	\$ 4.2	\$ 4.5
Interest cost	12.7	12.1	25.1	24.5
Expected return on plan assets	(15.2)	(15.4)	(30.4)	(31.0)
Amortization of net unrecognized loss	2.4	2.0	5.4	3.9
Amortization of prior service cost	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>
Defined benefit plan expense	<u>\$ 1.9</u>	<u>\$ 0.9</u>	<u>\$ 4.5</u>	<u>\$ 2.2</u>

The company is not required to contribute to its pension plans in 2009, but elected to make a contribution of \$15 million on June 30, 2009. The company may elect to make additional contributions during the year, not to exceed a total annual contribution of \$35.0 million.

**11. Operations by Segment (dollars in millions)**

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
<b>Net sales</b>				
Water Products	\$ 337.1	\$ 380.8	\$676.1	\$ 732.9
Electrical Products	162.4	242.4	306.1	462.9
Inter-segment sales	(0.8)	(1.1)	(1.8)	(2.2)
	<u>\$ 498.7</u>	<u>\$ 622.1</u>	<u>\$980.4</u>	<u>\$1,193.6</u>
<b>Operating earnings</b>				
Water Products <sup>(1)</sup>	\$ 36.5	\$ 36.3	\$ 65.6	\$ 72.3
Electrical Products <sup>(2)</sup>	7.6	22.5	4.6	33.6
Inter-segment earnings	—	—	(0.1)	(0.1)
	44.1	58.8	70.1	105.8
Corporate expenses <sup>(3)</sup>	(11.2)	(12.9)	(22.7)	(25.7)
Interest expense	(3.1)	(5.3)	(6.3)	(10.9)
Earnings before income taxes	29.8	40.6	41.1	69.2
Provision for income taxes	6.1	9.5	8.8	17.0
Earnings from continuing operations	<u>\$ 23.7</u>	<u>\$ 31.1</u>	<u>\$ 32.3</u>	<u>\$ 52.2</u>
<sup>(1)</sup> includes equity loss in joint venture of :	\$ (0.2)	\$ (0.1)	\$ (0.2)	\$ (0.2)
<sup>(2)</sup> includes pre-tax restructuring and other charges of:	\$ —	\$ —	\$ 0.5	\$ 3.8
<sup>(3)</sup> includes pre-tax restructuring and other charges of:	\$ —	\$ 1.9	\$ 1.0	\$ 1.9

**12. Restructuring and Other Charges**
*Electrical Products Restructuring and Other Costs*

December 31, 2008 balances represent severance accruals and other miscellaneous costs yet to be paid related to plant closings in Scottsville, KY and Mebane, NC which were completed prior to December 31, 2008.

In 2008, \$8.7 million of expense was recognized for the full year, \$2.8 million in the first six months, for severance and asset impairment and moving costs associated with the completion of Electrical Products restructuring programs. Included in the 2008 amount was a nontaxable \$2.9 million favorable translation adjustment recognized upon closure of the Budapest, Hungary facility. Through the first six months of 2009, \$0.5 million of expense for equipment move costs related to the plant closings was incurred.

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### 12. Restructuring and Other Charges (continued)

The following table presents an analysis of the company's Electrical Products restructuring reserve as of and for the six months ended June 30, 2009 (dollars in millions):

	<u>Severance Costs</u>	<u>Other</u>	<u>Total</u>
Balance at December 31, 2008	\$ 1.6	\$ 0.6	\$ 2.2
Expense recognized	—	0.5	0.5
Cash payments	(1.4)	(0.5)	(1.9)
Balance at March 31, 2009	0.2	0.6	0.8
Cash payments	(0.2)	(0.1)	(0.3)
Balance at June 30, 2009	<u>\$ —</u>	<u>\$ 0.5</u>	<u>\$ 0.5</u>

#### *Other Charges*

The company recognized \$1.0 million in expense in the six month period ended June 30, 2009 to cover real estate related costs associated with previously owned businesses.

### 13. Fair Value Measurements

The company adopted SFAS 157 on January 1, 2008. SFAS 157, 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. SFAS 157 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, SFAS 157 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 measured at fair value on a recurring basis are as follows (dollars in millions):

<u>Description</u>	<u>June 30, 2009</u>	<u>Fair Value Measurement Using</u>	
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Net derivative contracts	\$ (12.2)	\$ (5.2)	\$ (7.0)

There were no changes in our valuation techniques used to measure fair values on a recurring basis as a result of adopting SFAS 157.

#### 14. Derivative Instruments

Statement of Financial Accounting Standards (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 derivatives 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 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 and interest rate exposures 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.

##### *Commodity Futures Contracts*

In addition to entering into supply arrangements in the normal course of business, the company also enters 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. With one of its brokers,

**14. Derivative Instruments (continued)**

the company is required to make cash deposits on unrealized losses on commodity derivative contracts that exceed \$10.0 million.

The after-tax value of the effective portion of the contracts of \$(4.0) million as of June 30, 2009 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 majority of the effective portion of the contracts will be reclassified within one year with the remainder maturing no later than December 31, 2010.

As of June 30, 2009, the company had the following outstanding commodities futures contracts:

<u>Commodity</u>	<u>Number of Pounds (in millions)</u>
Copper	17.9
Aluminum	4.5

*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 Mexican peso, Chinese renminbi, Canadian dollar 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 perfectly 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 reclassified into earnings no later than December 31, 2010.

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

<u>June 30 (dollars in millions)</u>	<u>2009</u>	
	<u>Buy</u>	<u>Sell</u>
Euro	\$ 3.0	\$ 0.9
Canadian dollar	—	20.5
Chinese renminbi	37.4	—
Mexican peso	82.6	—
Total	<u>\$123.0</u>	<u>\$21.4</u>



**14. Derivative Instruments (continued)**

*Interest Rate Swap Agreement*

The company is exposed to interest rate risk as a result of its floating rate borrowings under its revolving credit facility. The company uses interest rate swaps to manage this risk. As of June 30, 2009, the company had one interest rate swap outstanding in the amount of \$25 million that expires in November 2010.

The interest rate swap is designated and accounted for as a cash flow hedge of floating rate debt. Gains and losses on this instrument 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 the interest rate swap is based on changes in floating rate interest rates. This swap has been determined to be perfectly effective.

The impact of cash flow hedges on the company's financial statements is as follows (dollars in millions):

Fair value of derivative instruments

<u>June 30, 2009 (dollars in millions)</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
Commodities contracts	Derivative contracts liability	\$ (10.4)
	Other current assets	3.3
Foreign currency contracts	Derivative contracts liability	(3.9)
	Other current assets	0.2
Interest rate swap contract	Derivative contracts liability	(1.4)
Total		<u>\$ (12.2)</u>

The effect of derivative instruments on the Statement of Earnings

Quarter ended June 30, 2009

<u>Derivatives in SFAS 133 cash flow hedging relationships</u>	<u>Amount of gain/(loss) recognized in OCI on derivative (effective portion)</u>	<u>Location of gain/(loss) reclassified from Accumulated OCI into earnings (effective portion)</u>	<u>Amount of gain/(loss) reclassified from Accumulated OCI into earnings (effective portion)</u>	<u>Location of gain/(loss) recognized in earnings on derivative (ineffective portion)</u>	<u>Amount of gain/(loss) recognized in earnings on a derivative (ineffective portion)</u>
Commodities contracts	\$ 9.0	Cost of products sold	\$ (10.3)	Cost of products sold	\$ 0.2
Foreign currency contracts	6.4	Cost of product sold	(3.9)	N/A	—
Interest rate swap contract	(0.1)	Interest expense	(0.3)	N/A	—
	<u>\$ 15.3</u>		<u>\$ (14.5)</u>		<u>\$ 0.2</u>

[Table of Contents](#)**14. Derivative Instruments (continued)**

The effect of derivative instruments on the Statement of Earnings

Year to date June 30, 2009

<u>Derivatives in SFAS 133 cash flow hedging relationships</u>	<u>Amount of gain/(loss) recognized in OCI on derivative (effective portion)</u>	<u>Location of gain/(loss) reclassified from Accumulated OCI into earnings (effective portion)</u>	<u>Amount of gain/(loss) reclassified from Accumulated OCI into earnings (effective portion)</u>	<u>Location of gain/(loss) recognized in earnings on derivative (ineffective portion)</u>	<u>Amount of gain/(loss) recognized in earnings on a derivative (ineffective portion)</u>
Commodities contracts	\$ 18.4	Cost of products sold	\$ (26.0)	Cost of products sold	\$ 0.8
Foreign currency contracts	6.7	Cost of product sold	(8.6)	N/A	—
Interest rate swap contract	(0.2)	Interest expense	(0.5)	N/A	—
	<u>\$ 24.9</u>		<u>\$ (35.1)</u>		<u>\$ 0.8</u>

**PART I—FINANCIAL INFORMATION**

**ITEM 2—MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**RESULTS OF OPERATIONS**

**SECOND QUARTER AND FIRST SIX MONTHS OF 2009 COMPARED TO 2008**

Sales in the second quarter of 2009 were \$498.7 million or \$123.4 million lower than sales of \$622.1 million in the second quarter of 2008. Sales for the first half of 2009 declined to \$980.4 million from \$1,193.6 million in the same period last year. The lower sales for both the second quarter and first half of 2009 resulted from lower volume for residential and commercial water heaters in North America, which more than offset year over year pricing related to higher raw material costs at Water Products, and declining market demand and customer inventory reductions at Electrical Products. The decline in sales at both of our operating units reflect cautious customer spending and continuing softness in the domestic housing and commercial markets caused by the global recession. Reported net earnings for the second quarter were \$21.3 million or \$0.84 per diluted share and compared to \$9.5 million or \$1.00 per share in the second quarter of 2008. Our reported earnings per share under GAAP have been impacted by required accounting related to the company’s transaction with Smith Investment Company (SICO), which closed on April 22, 2009 and is discussed in more detail in Note 1 of the Notes to Condensed Consolidated Financial Statements. For accounting purposes, the former controlling shareholder, SICO, is treated as the acquirer even though A. O. Smith Corporation (AOS) is the surviving corporation from a legal standpoint. Current and prior period earnings and earnings per share amounts reported by AOS include SICO earnings and shares outstanding as adjusted for the exchange ratio of the merger transaction prior to the closing date.

The primary accounting impact of the SICO transaction is in the calculation of earnings per share because the accounting rules require the use of SICO adjusted average shares outstanding rather than AOS shares outstanding prior to closing. Eliminating the impact of the transaction as set forth in the table on the following page, non-GAAP net earnings were \$23.7 million or \$0.79 per diluted share in the second quarter of 2009 and compared to \$32.0 million or \$1.06 per share in the second quarter of 2008. Reported net earnings for the first six months of 2009 were \$24.0 million or \$1.38 per diluted share and compared to net earnings of \$15.9 million or \$1.67 per share in the first six months of 2008. The reported 2009 year to date GAAP net earnings and diluted earnings per share in this Form 10-Q differ from the amounts reported in our press release issued July 17, 2009. The difference is due to the accounting treatment related to a SICO deferred tax adjustment in the first quarter of 2009 which was initially charged to tax expense and should have been recorded as a reduction to retained earnings as part of the spin-off of discontinued businesses. This correction results in changing the 2009 GAAP net earnings and earnings per diluted share as reported in the press release from \$20.7 million and \$1.19, respectively, to \$24.0 million and \$1.38, respectively, in this Form 10-Q. This correction does not impact the second quarter as the deferred tax adjustment was a first quarter occurrence. This correction changes our 2009 full year earnings outlook from a range of \$2.15 to \$2.35 per fully diluted share in the press release to \$2.25 to \$2.50 per fully diluted share on a GAAP basis. Our non-GAAP net earnings, per share amounts and earnings outlooks are unaffected by this correction. Elimination of the impact of the transaction results in non-GAAP net earnings of \$32.4 million or \$1.07 per diluted share in the first half of 2009 as compared to non-GAAP net earnings of \$53.8 million or \$1.78 per share in the same period of 2008.

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We believe that presenting non-GAAP financial information permits investors to compare the financial results of the business operations of AOS for the current period to the historical financial results of AOS for periods previously reported. Although future discrete quarterly financial information will not be affected by the transaction, 2009 year to date earnings per share calculations will continue to be impacted by the transaction until January 1, 2010. During the transition period, we will continue to present non-GAAP earnings per share information for purposes of comparing the financial results of the current period to the historical financial results of AOS. Management also uses this non-GAAP information for all internal purposes of reporting results of operations including return on investment measures utilized in determining certain incentive-based compensation and employee profit sharing amounts. Below is a reconciliation of GAAP to non-GAAP earnings and earnings per share as discussed above.

A. O. SMITH CORPORATION  
Reconciliation of Non-GAAP Data  
In millions, except per share amounts

	Second Quarter Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Net Earnings, as reported	\$ 21.3	\$ 9.5	\$ 24.0	\$ 15.9
Add: Non-GAAP adjustments attributable to net earnings of non-controlling interest and SICO expenses	\$ 2.4	\$ 22.5	\$ 8.4	\$ 37.9
Adjusted Earnings	\$ 23.7	\$ 32.0	\$ 32.4	\$ 53.8
Average Common shares outstanding, as reported <sup>(1)</sup>	25.2	9.5	17.4	9.5
Add: Non-GAAP adjustments to weighted average Common shares attributable to non-controlling interest	5.0	20.8	12.8	20.7
Adjusted average Common shares outstanding	30.2	30.3	30.2	30.2
Earnings per Share, as reported	\$ 0.84	\$ 1.00	\$ 1.38	\$ 1.67
Adjusted Earnings per Share	\$ 0.79	\$ 1.06	\$ 1.07	\$ 1.78

The non-GAAP presentation of adjusted earnings per share should not be construed as an alternative to the results reported in accordance with U.S. GAAP. It is provided solely to assist in the investor's understanding of the impact of these items on the comparability of the company's operations.

<sup>(1)</sup> Reported shares are calculated as the weighted average of SICO shares as adjusted for the exchange ratio of the merger transaction prior to the closing and A. O. Smith shares after the closing

Our gross profit margins are unaffected by the aforementioned transaction and in the second quarter of 2009 increased to 24.5 percent from 22.7 percent. The higher margins in 2009 were due to year over year pricing and cost reduction activities at Water Products as partially offset by lower margins at Electrical Products caused by the decline in volume which more than offset cost reduction measures at Electrical Products. Our gross profit margin for the first half of 2009 declined to 22.8 percent from 23.0 percent in 2008. A significant decline in 2009 first half margins at Electrical Products due to lower volumes more than offset the slight improvement in Water Products first half margins.

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Selling, general and administrative (SG&A) expenses in the second quarter and first half of 2009 were lower than the same periods in 2008 by \$5.8 million and \$15.2 million, respectively. The reduction in SG&A in both the second quarter and first half of 2009 was due mostly to salaried personnel reduction activities and lower selling costs. SICO related SG&A was \$0.3 million and \$0.6 million in the second quarter and first half of 2008, respectively, and was negligible in 2009.

We did not incur any restructuring and other charges in the second quarter of 2009 whereas in the same period of 2008 we incurred \$1.2 million of restructuring and other charges of which \$0.9 million were fees incurred by SICO associated with the merger transaction. Restructuring and other charges were \$1.5 million and \$5.7 million in the first half of 2009 and 2008, respectively. The 2009 amount is comprised of a \$1.0 million loss on sale of a vacated facility from a previously owned business recognized in corporate expense and \$0.5 million of equipment move costs associated with certain Electrical Products' plant closures. The \$5.7 million recognized in 2008 included \$1.5 million of fees incurred by SICO associated with the transaction with most of the remaining \$4.2 million being related to plant closure activities at Electrical Products.

Interest expense in 2009 decreased from 2008 by \$2.2 million and \$4.6 million for the second quarter and first six months, respectively, due to lower interest rates and debt levels.

We have significant pension benefit 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. Consideration is given to current market conditions, including changes in interest rates in making these assumptions. Our assumptions for the expected rate of return on plan assets is 8.75 percent in 2009, unchanged from 2008. The discount rate used to determine net periodic pension costs increased from 6.5 percent in 2008 to 6.6 percent in 2009. Pension expense for the first half of 2009 was \$4.5 million or \$2.3 million higher than the first half of 2008. Total pension expense for 2009 is expected to be \$8.9 million compared to \$4.0 million in 2008. Our pension costs are reflected in cost of products sold and selling, general and administrative expense.

Our effective tax rate for the second quarter of 2009 was 20.3 percent and compared to a 23.3 percent rate in the same period last year. The 2009 second quarter rate included a \$1.9 million favorable adjustment in deferred taxes which included a retroactive reduction in the tax rate of our China water heater operation for achieving high technology status. The effective tax rate for the first half of 2009 was 21.3 percent compared to 24.5 percent in the same period of 2008. The 2009 first half rate was also impacted by the \$1.9 million favorable adjustment mentioned previously. Additionally, the second quarter and first half of 2008 effective tax rates were impacted by a nontaxable \$2.9 million favorable cumulative translation adjustment recognized upon closure of our Budapest, Hungary motor operation.

For all periods presented, the net earnings attributable to noncontrolling interest are comprised of the portion of A. O. Smith Corporation's earnings not attributable to SICO shareholders through the closing of the transaction on April 22, 2009.

### *Water Products*

Second quarter sales for our Water Products segment were \$337.1 million or \$43.7 million lower than the second quarter of 2008. First half sales in 2009 were \$676.1 million or \$56.8 million lower than the same period in 2008. The sales declines in both the second quarter and first half

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of 2009 were due to lower residential and commercial water heater volume in North America, reflecting continuing softness in the domestic housing market and a slow down in the commercial water heater market segment, which more than offset year over year pricing related to higher raw material costs. The decline in the second quarter was partially offset by a 16 percent increase in sales for our China water heater operation primarily due to the Chinese government economic stimulus program.

Operating earnings for our Water Products segment were \$36.5 million in the second quarter of 2009, essentially unchanged from the same period last year as the impact of lower volume was offset by aggressive cost reduction programs and year over year pricing. First half operating earnings in 2009 were \$65.6 million or \$6.7 million lower than earnings of \$72.3 million in the first half of 2008.

### *Electrical Products*

Second quarter sales for our Electrical Products segment were \$162.4 million or 33 percent lower than 2008 second quarter sales of \$242.4 million. Sales for the first half of 2009 also declined by about one-third from the first half of 2008. The lower sales in both the second quarter and first half of 2009 resulted from weak residential and commercial construction markets and customer inventory reductions due to the global recession.

Operating earnings for our Electrical Products segment in the second quarter were \$7.6 million or \$14.9 million less than earnings of \$22.5 million in the same period of 2008. First half operating earnings in 2009 were \$4.6 million or \$29.0 million lower than 2008 first half earnings of \$33.6 million. The lower earnings in both the second quarter and first half of 2009 resulted from significantly lower volumes which more than offset cost savings achieved in 2009 as a result of 2008 restructuring activities.

### **Outlook**

The company does not foresee a recovery in U.S. residential new construction during the remainder of 2009, and expects weakened commercial demand to continue. The company expects a modest seasonal uptick in the HVAC market as customers replenish inventories, but expects this trend to be short-lived.

Given difficult market conditions, the company continues to conserve cash and reduce costs throughout the organization. Due, in large part, to the success of cost management efforts and sequential improvement in second quarter earnings, the company is increasing the full-year earnings outlook to between \$2.25 and \$2.50 per share on a GAAP basis and \$2.05 and \$2.25 per share, on a non-GAAP basis as reconciled below.

A. O. SMITH CORPORATION  
Reconciliation of full-year projection  
GAAP to non-GAAP  
in millions, except per share amounts

	<u>low end</u>	<u>high end</u>
Projected full-year net earnings—GAAP	\$ 53.6	\$ 59.6
Add: Non-GAAP adjustments attributable to net earnings on non-controlling interest and SICO expenses	\$ 8.4	\$ 8.4
Adjusted projected full-year earnings	<u>\$ 62.0</u>	<u>\$ 68.0</u>
Projected average shares outstanding—GAAP <sup>(1)</sup>	23.8	23.8
Add: Non-GAAP adjustments to weighted average Common shares attributable to non-controlling interest	6.4	6.4
Adjusted projected average shares outstanding	<u>30.2</u>	<u>30.2</u>
Projected full-year earnings per share—GAAP	<u>\$ 2.25</u>	<u>\$ 2.50</u>
Projected full-year earnings per share—non-GAAP	<u>\$ 2.05</u>	<u>\$ 2.25</u>

<sup>(1)</sup> Shares are calculated as the weighted average of SICO shares as adjusted for the exchange ratio of the merger transaction prior to the closing and A. O. Smith shares after the closing

### Liquidity & Capital Resources

Our working capital was \$305.7 million at June 30, 2009 and compared to \$280.1 million of working capital associated with continuing operations at December 31, 2008. Lower inventory levels of \$56.0 million, as a result of focused inventory reduction programs at both businesses were offset by lower accounts payable balances at both businesses and a \$57.3 million (non-cash) decline in our derivative contracts liability. Cash provided by operating activities during the first six months of 2009 was \$93.6 million compared with \$20.3 million during the first six months of 2008. A decline in the company's investment in current assets and liabilities this year compared with a significant increase last year more than offset lower earnings this year compared with the same period one year ago. For the total year, we expect cash provided by operating activities to be approximately \$140 to \$150 million.

Our capital expenditures totaled \$21.6 million during the first six months of 2009 compared with \$25.4 million one year ago. We are projecting 2009 capital expenditures to be between \$60 and \$70 million, similar to levels of last year and approximately the same as projected depreciation and amortization expense. Capital spending in 2009 includes construction of the water heater manufacturing plant near Bangalore, India and the completion of the expansion of our Nanjing, China water heater operations.

We have a \$425 million multi-currency credit facility with eight banks. 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 at the end of June, 2009.

The facility backs up commercial paper and credit line borrowings, and it expires on February 17, 2011. 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 June 30, 2009, we had available borrowing capacity of \$268.2 million under this facility. We believe the

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combination of available borrowing capacity and operating cash flow will provide sufficient funds to finance our existing operations for the foreseeable future.

At this point in time, our liquidity has not been materially impacted by the current credit environment, and we do not expect that it will be materially impacted in the near future. There can be no assurance, however, that the cost of future borrowings on our credit facility will not be impacted by the ongoing capital market disruptions.

Our total debt declined \$41.4 million from \$334.8 million at December 31, 2008 to \$293.4 million at June 30, 2009. Our leverage, as measured by the ratio of total debt to total capitalization, was 29.4 percent at the end of June, down from the 34.3 percent at the end of last year.

GSW, acquired in April 2006, operated a captive insurance company to provide product liability and general liability insurance to its subsidiary, American Water Heater Company. We decided to cover American's liability exposures with our existing insurance programs and operate the captive in runoff effective July 1, 2006. The reinsurance company restricts the amount of capital which must be maintained by the captive. At June 30, 2009, the restricted amount was \$17.3 million and is included in other non-current assets. The restricted assets are invested in money market securities. During the first half of 2009, the company liquidated approximately \$8.9 million in marketable securities and used the proceeds to pay down debt.

Our pension plan continues to meet all funding requirements under ERISA regulations. We are not required to make a contribution in 2009. We made a \$15.0 million contribution to the pension plan in June 2009, and are considering an additional voluntary 2009 contribution of up to \$20.0 million.

On July 13, 2009, our board of directors increased the rate of the regular quarterly dividend on our common stock and Class A common stock to \$.195 per share. The new rate, which represents a 2.6% increase, is payable on August 17, 2009 to shareholders of record on July 31, 2009.

### **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, 2008. We believe that at June 30, 2009 there has been no material change to this information.

### **Recent Accounting Pronouncements**

In May 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (SFAS 165). SFAS 165 addresses the types and timing of events that should be reported in the financial statements for events that occur between the balance sheet date and the date the financial statements are issued or available to be issued. SFAS was effective for us on June 30, 2009 and we reviewed events for possible inclusion in the financial statements through July 31, 2009.



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In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB No. 133”. SFAS 161 is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity’s derivative instruments and hedging activities and their effects on the entity’s financial position, financial performance, and cash flows. SFAS 161 applies to all derivative instruments within the scope of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” (“SFAS 133”). SFAS 161 also applies to non-derivative hedging instruments and all hedged items designated and qualifying under SFAS 133. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for periods prior to its initial adoption. We adopted SFAS 161 on January 1, 2009. Adoption of this statement did not have a material impact on our consolidated financial condition, results of operations or cash flows. See Note 13 for further discussion.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51”, (“SFAS 160”). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method changes the accounting for transactions with minority interest holders. SFAS 160 is effective beginning in 2009. We adopted SFAS 160 on January 1, 2009. Adoption of this statement has impacted our accounting for the SICO transaction and has been incorporated in the accompanying financial statements.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations,” (“SFAS 141(R)”). SFAS 141(R) requires us to continue to follow the guidance in SFAS 141 for certain aspects of business combinations, with additional guidance provided defining the acquirer, recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, assets and liabilities arising from contingencies, defining a bargain purchase and recognizing and measuring goodwill or a gain from a bargain purchase. In addition, certain transaction costs previously capitalized as part of the purchase price will be expensed as incurred. Also, under SFAS 141(R) adjustments associated with changes in tax contingencies that occur after the one year measurement period are recorded as adjustments to income. This statement is effective for all business combinations for which the acquisition date is on or after the beginning of an entity’s first fiscal year that begins after December 15, 2008; however, the guidance in this standard regarding the treatment of income tax contingencies is retrospective to business combinations completed prior to January 1, 2009. We have adopted SFAS 141(R) on January 1, 2009 and incorporated the impact of this statement in the accounting for the SICO transaction.

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### 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, 2008, 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 June 30, 2009 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 June 30, 2009 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," 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. Factors that could cause such a variance include the following: significant volatility in raw material prices; competitive pressures on the company's businesses; inability to implement pricing actions; negative impact of future pension contributions on the company's ability to generate cash flow; instability in the company's electric motor and water products markets; further weakening in housing construction; further weakening in commercial construction; a further slowdown in the Chinese economy; expected restructuring savings realized; further adverse changes in customer liquidity and general economic and capital market conditions; or the impact of acquisition accounting or non-GAAP financial measures on the company's financial statements. Forward-looking statements included in this filing are made only

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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.

**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 13 of the Notes to Consolidated Financial Statements in the company's Form 10-K Report for the year ended December 31, 2008, 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 one million shares of the company's common stock. 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 half of 2009.

ISSUER PURCHASES OF EQUITY SECURITIES

<u>Period</u>	<u>(a) Total Number of Shares Purchased</u>	<u>(b) Average Price Paid per Share</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d) Maximum Number of Shares that may Yet be Purchased Under the Plans or Programs</u>
January 1 – June 30, 2009	—	—	—	1,000,000

**ITEM 4—SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

At the company's annual meeting of stockholders on April 14, 2009 the following items were voted on: the election of directors, the ratification of Ernst & Young LLP as the independent registered public accounting firm of the company for 2009 and the approval of an amendment to the A. O. Smith Combined Incentive Compensation Plan to increase the authorized shares of Common Stock under the Plan by 1,250,000.

1. Election of Directors

<u>Class A Common Stock Directors</u>	<u>Votes For</u>	<u>Votes Withheld</u>
Ronald D. Brown	8,166,929	3,515
William F. Buehler	8,166,929	3,515
Gloster B. Current, Jr.	8,166,929	3,515
Paul W. Jones	8,166,929	3,515
Bruce M. Smith	8,166,929	3,515
Mark D. Smith	8,166,749	3,695
Gene C. Wulf	8,166,929	3,515
<u>Common Stock Directors</u>	<u>Votes For</u>	<u>Votes Withheld</u>
William P. Greubel	16,678,956	2,064,163
Robert J. O'Toole	18,510,124	232,995
Idelle K. Wolf	18,558,788	184,332

2. Ratification of Ernst & Young LLP as Independent Registered Public Accounting Firm

<u>Combined Class Vote</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Broker Abstentions</u>
Class A Common Stock (1 vote) and Common Stock (1/10 <sup>th</sup> vote)	10,023,552	20,730	475

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3. Approval of an amendment to the A. O. Smith Combined Incentive Compensation Plan to increase the authorized shares of Common Stock under the Plan by 1,250,000.

<u>Combined Class Vote</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Broker Abstentions</u>
Class A Common Stock (1 vote) and Common Stock (1/10 <sup>th</sup> vote)	9,566,563	250,496	39,769

At the company's special meeting of stockholders on April 14, 2009 the following items were voted on: Approval of the adoption of the Merger Agreement, approval of the adoption of the A. O. Smith amended and restated Certificate of Incorporation and the approval of the stock issuance to SICO stockholders pursuant to the merger contemplated by the Merger Agreement.

1. Approval of the adoption of the Merger Agreement

<u>Combined Class Vote</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Broker Abstentions</u>
Class A Common Stock (1 vote) and Common Stock (1/10 <sup>th</sup> vote)	9,581,596	190,947	1,812

2. Approval of the adoption of the A. O. Smith amended and restated Certificate of Incorporation

<u>Combined Class Vote</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Broker Abstentions</u>
Class A Common Stock (1 vote) and Common Stock (1/10 <sup>th</sup> vote)	9,586,014	186,236	2,105

3. Approval of the stock issuance to SICO stockholders pursuant to the merger contemplated by the Merger Agreement

<u>Combined Class Vote</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Broker Abstentions</u>
Class A Common Stock (1 vote) and Common Stock (1/10 <sup>th</sup> vote)	9,581,486	191,008	1,860

## ITEM 5—OTHER INFORMATION

None.

## ITEM 6—EXHIBITS

Refer to the Exhibit Index on page 31 of this report.

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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**

August 4, 2009

/s/ John J. Kita

John J. Kita  
Senior Vice President  
Corporate Finance & Controller

August 4, 2009

/s/ Terry M. Murphy

Terry M. Murphy  
Executive Vice President  
and Chief Financial Officer

**INDEX TO EXHIBITS**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
3.1	Amended and Restated Certificate of Incorporation of A. O. Smith Corporation (incorporated by reference the Current Report on Form 8-K dated April 22, 2009).
10.1	A. O. Smith Corporation Senior Leadership Severance Plan
10.2	A. O. Smith Combined Incentive Compensation Plan, effective February 10, 2009 (incorporated by reference to Exhibit A to proxy statement filed on March 5, 2009 for 2009 annual meeting of shareholders).
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	Written Statement of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350.



**Senior Leadership Severance Plan**  
A. O. Smith Corporation



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**A. O. Smith Corporation**  
**Senior Leadership Severance Plan**  
**(For Tier I and Tier II Executives)**

**Article 1 Establishment and Term of the Plan**

**1.1 Establishment of the Plan.** A. O. Smith Corporation (hereinafter referred to as the “Company”) hereby establishes a severance plan to be known as the “A. O. Smith Corporation Senior Leadership Severance Plan” (the “Plan”). The Plan provides severance benefits to certain employees of the Company or its subsidiaries upon certain terminations of employment from the Company and its affiliates and provides for vesting of certain equity awards upon a change in control.

The Company considers the establishment and maintenance of a sound and vital management team to be essential to protecting and enhancing the best interests of the Company and its stockholders. In this connection, the Company recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may arise and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders.

Accordingly, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company’s management to their assigned duties without distraction in circumstances arising from the possibility of a Change in Control.

**1.2 Initial Term.** This Plan will commence on August 1, 2009 (the “Effective Date”) and shall continue in effect for a period of three (3) years (the “Initial Term”).

**1.3 Successive Periods.** The term of this Plan shall automatically be extended for one (1) additional year at the end of the Initial Term, and then again after each successive one (1) year period thereafter (each such one (1) year period following the Initial Term is referred to as a “Successive Period”). However, the Committee may terminate this Plan at the end of the Initial Term, or at the end of any Successive Period thereafter, by giving the Executives written notice of intent to terminate the Plan, delivered at least six (6) months prior to the end of such Initial Term or Successive Period. If such notice is properly delivered by the Company, this Plan, along with all corresponding rights, duties, and covenants, shall automatically expire at the end of the Initial Term or Successive Period then in progress. Notwithstanding the foregoing, termination of the Plan shall not affect the Severance Benefits due from the Employer to any Executive who experienced a Qualifying Termination prior to the effective date of the Plan’s termination nor shall it nullify the covenants agreed to by the Executives in the Confidentiality and Loyalty Agreement attached as Appendix B.

**1.4 Change-in-Control Renewal.** Notwithstanding the provisions of Section 1.3 above, in the event that a Change in Control of the Company occurs during the Initial Term or any Successive Period, upon the effective date of such Change in Control, the term of this Plan shall automatically and irrevocably be renewed for a period of two (2) years from the effective

date of such Change in Control. Further, this Plan may be assigned to a successor in such Change in Control, as further provided in Article 6 herein. This Plan shall thereafter automatically terminate following such two (2) year Change-in-Control renewal period.

## Article 2 Definitions

Whenever used in this Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized.

- (a) **“Base Salary”** means the greater of the Executive’s annual rate of salary, whether or not deferred, at: (i) the Effective Date of Termination, or (ii) the date of the Change in Control.
- (b) **“Beneficiary”** means the persons or entities designated or deemed designated by the Executive pursuant to Section 6.2 herein.
- (c) **“Board”** means the Board of Directors of the Company.
- (d) **“Business Unit”** means any subsidiary or affiliate of the Company, or any operating division of the Company, any subsidiary or any affiliate, which is designated by the Committee to constitute a Business Unit.
- (e) **“Business Unit Change in Control”** means the first to occur of any of the following:
  - (i) Any “person” (as that term is used in Sections 13 and 14(d)(2) of the Securities Exchange Act of 1934 (“Exchange Act”)), other than an Excluded Person, becomes the “Beneficial Owner” (as that term is used in Section 13(d) of the Exchange Act), directly or indirectly, of fifty percent (50%) or more of the Business Unit’s voting securities; or
  - (ii) Consummation of a reorganization, merger, consolidation, or sale or other disposition of all or substantially all of the assets of the Business Unit (a “Business Combination”), in each case, unless, following such Business Combination, (A) at least fifty percent (50%) of the voting securities of the company resulting from such Business Combination are owned, directly or indirectly, by the Company or an Excluded Person, or (B) all or substantially all of the individuals and entities who were the beneficial owners of outstanding voting securities of the Business Unit immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the company resulting from such Business Combination (including, without limitation, a company which, as a result of such transaction, owns the Business Unit or all or substantially all of the Business Unit’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities of Business Unit.

- (f) **“Cause”** means one or more of the following:
- (i) The conviction of, or an agreement to a plea of nolo contendere to, any felony or other crime involving moral turpitude; or
  - (ii) The Executive’s willful and continuing refusal to substantially perform his or her duties as reasonably directed by the Board under this or any other agreement (after receipt of written notice from the Board setting forth such duties and responsibilities to be performed); or
  - (iii) In carrying out the Executive’s duties, the Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct which, in either case, results in demonstrable harm to the business, operations, prospects, or reputation of the Company or its affiliates; or
  - (iv) Any other material breach of the Confidentiality and Loyalty Agreement attached as Appendix B to this Plan.
- For purposes of clauses (ii) and (iii) of this definition, no act or failure to act shall be deemed willful or gross negligence: (x) if caused by a Disability, or (y) unless done or omitted to be done not in good faith or without reasonable belief that such act or commission is in the best interest of the Company. There shall be no termination for Cause pursuant to clauses (ii), (iii) or (iv) above, unless a written notice (which shall constitute the Notice of Termination), containing a detailed description of the grounds constituting Cause hereunder, is delivered to the Executive stating the basis for the termination. Upon receipt of such notice, the Executive shall be given thirty (30) days to fully cure and remedy the neglect or conduct that is the basis of such claim. If the Executive fails to fully cure and remedy such neglect or misconduct to the reasonable satisfaction of the Company within such thirty (30) day period, the Executive shall be terminated for Cause at the end of such thirty (30) day period.
- (g) **“Change in Control”** means a Company Change in Control, and with respect to Executives assigned to work primarily for a Business Unit, also includes a Business Unit Change in Control.
- (h) **“Company Change in Control”** means the first to occur of any of the following events:
- (i) Any “person” (as that term is used in Sections 13 and 14(d)(2) of the Securities Exchange Act of 1934 (“Exchange Act”)), other than an Excluded Person, becomes the “Beneficial Owner” (as that term is used in Section 13(d) of the Exchange Act), directly or indirectly, of fifty percent (50%) or more of the Company’s capital stock entitled to vote in the election of directors; or

- (ii) Persons who on the Effective Date constitute the Board (the “Incumbent Directors”) cease for any reason, including without limitation, as a result of a tender offer, proxy contest, merger, or similar transaction, to constitute at least a majority thereof, provided that any person becoming a director of the Company subsequent to the Effective Date shall be considered an Incumbent Director if such person’s election or nomination for election was approved by a vote of at least two-thirds (2/3) of the Incumbent Directors; but provided further, that any such person whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members of the Board or other actual or threatened solicitation of proxies or consents by or on behalf of a “person” (as defined in Sections 13(d) and 14(d) of the Exchange Act) other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, shall not be considered an Incumbent Director; or
- (iii) Consummation of a reorganization, merger, consolidation, or sale or other disposition of all or Substantial Portion of Assets of the Company (a “Business Combination”), in each case, unless, following such Business Combination, (A) at least fifty percent (50%) of the voting securities of the company resulting from such Business Combination are owned, directly or indirectly, by an Excluded Person, or (B) all or substantially all of the individuals and entities who were the beneficial owners of outstanding voting securities of the Company immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the company resulting from such Business Combination (including, without limitation, a company which, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities of the Company;

and, in each case, which constitutes a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation, within the meaning of Code Section 409A.

- (i) **“Code”** means the United States Internal Revenue Code of 1986, as amended, and any successors thereto.
- (j) **“Committee”** means the Personnel and Compensation Committee of the Board or any other committee appointed by the Board to perform the functions of the Compensation Committee.

- (k) **“Company”** means A. O. Smith Corporation, a Delaware corporation, or any successor thereto as provided in Article 6 herein.
- (l) **“Disability”** shall mean the Executive’s inability to perform the essential duties, responsibilities, and functions of his or her position with the Employer as a result of any mental or physical disability or incapacity, even with reasonable accommodations of such disability or incapacity provided by the Employer, or if providing such accommodations would be unreasonable, for a period of six (6) consecutive months. The Executive shall cooperate in all respects with the Company if a question arises as to whether he or she has become disabled (including, without limitation, submitting to an examination by a medical doctor or other health care specialists selected by the Company and reasonably acceptable to the Executive and authorizing such medical doctor or such other health care specialist to discuss the Executive’s condition with the Company).
- (m) **“Effective Date”** means the commencement date of this Plan as specified in Section 1.2 of this Plan.
- (n) **“Effective Date of Termination”** means the date on which a Qualifying Termination occurs, as defined hereunder, which triggers the payment of Severance Benefits hereunder.
- (o) **“Employer”** means the Company or the Company’s subsidiary that is the direct employer of an Executive, or any successor thereto as provided in Section 6.
- (p) **“Excluded Person”** means any of (i) a lineal descendant of Lloyd R. Smith, (ii) a trust (including but not limited to a voting trust) the beneficiaries of which are one or more lineal descendants of Lloyd R. Smith, (iii) a partnership or limited liability company owned by any of the foregoing, or (iv) any group consisting of one or more of the foregoing.
- (q) **“Executive”** means those employees of the Company or any of its subsidiaries employed in the positions listed on Appendix A, as it may be amended by the Committee from time to time. Notwithstanding the foregoing, an individual shall not be treated as an Executive covered by the Plan unless the individual executes within thirty (30) days of the Effective Date, or if later, the date the individual is hired or promoted into a position designated on Appendix A, the Confidentiality and Loyalty Agreement attached as Appendix B hereto and any agreement required by the Company to confirm termination of any prior severance agreement or plan covering the Executive.
- (r) **“Good Reason”** shall mean, without the Executive’s express written consent, the occurrence of any one or more of the following:
- (i) The Employer materially reduces the amount of the Executive’s Base Salary; provided that any such material reduction shall not constitute Good Reason if the material reduction is applied consistently by the Company to all similarly-situated Executives; or

- (ii) The Employer requires the Executive to be based at a location in excess of fifty (50) miles from the location of the Executive's principal job location or office as of the Effective Date (or if later, the date the Executive becomes covered by the Plan); or
- (iii) A material diminution in the Executive's title, authority, duties, or responsibilities or the assignment of duties to the Executive which are materially inconsistent with his position; provided that the foregoing shall not be deemed to occur with respect to an Executive designated as a Tier II Executive on Appendix A as a result of a change in the reporting relationship of such Executive; or
- (iv) The failure of the Company or Business Unit, as the case may be, to obtain in writing the obligation to perform or be bound by the terms of this Plan by a purchaser of all or substantially all of the assets of the Company or Business Unit, as the case may be, within fifteen (15) days after the consummation of the sale transaction; or
- (v) Any other action or inaction by the Company that constitutes a material breach by the Company of the terms and conditions of this Plan.

For purposes of this Plan, the Executive is not entitled to assert that his or her termination is for Good Reason unless the Executive gives written notice (which shall constitute the Notice of Termination) to the Board (for a Tier I Executive) or the Company (for a Tier II Executive) of the event or events which are the basis for such claim within ninety (90) days after the event or events occur, describing such claim in reasonably sufficient detail to allow the Board or Company, as applicable, to address the event or events and a period of not less than thirty (30) days after the Board's or Company's receipt of such notice to cure or fully remedy the alleged condition. If the Board or Company, as applicable, fails to fully cure and remedy the event(s) constituting Good Reason to the reasonable satisfaction of the Executive within such thirty (30) day period, the Executive shall terminate for Good Reason at the end of such thirty (30) day period (or such later date as may be agreed by the Executive and the Employer, which may not be more than two years following the date of the event(s) constituting Good Reason).

- (s) **"Notice of Termination"** shall mean a written notice which shall indicate the specific termination provision in this Plan relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and shall provide the date of Executive's termination.
- (t) **"Qualifying Termination"** means a termination of employment under the following circumstances:

- (i) An involuntary termination of the Executive's employment by the Employer for reasons other than Cause pursuant to a Notice of Termination delivered to the Executive by the Company; or
- (ii) A voluntary termination by the Executive for Good Reason pursuant to a Notice of Termination delivered to the Board or the Company, as applicable, by the Executive.

Termination of employment shall have the same meaning as "separation from service" within the meaning of Treasury Regulation §1.409A-1(h). Notwithstanding the foregoing, for purposes of entitlement to the severance benefits described in Section 3.2(b), (c), (e) and (g) or Section 3.3, in the event of a Change in Control arising from (x) a sale of all or substantially all of the Company's assets, or (y) a Business Unit Change in Control, no Qualifying Termination shall occur with respect to an Executive who becomes employed immediately following the consummation of such Change in Control transaction by the buyer or successor, but only if such buyer or successor assumes the Plan for the benefit of the Executive as set forth in Section 6.

- (u) **"Severance Benefits"** means the payment of Change-in-Control or General (as appropriate) Severance compensation as provided in Article 3 herein.
- (v) **"Substantial Portion of Assets"** means assets from the corporation that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the corporation immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the corporation, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

## Article 3 Severance Benefits

### 3.1 Right to Severance Benefits and Impact on Long-Term Incentives

- (a) **Change-in-Control Severance Benefits.** The Executive shall be entitled to receive, from the Employer, Change-in-Control Severance Benefits, as described in Section 3.2 herein, if a Qualifying Termination of the Executive's employment has occurred within twenty-four (24) months immediately following a Change in Control.
- (b) **General Severance Benefits.** The Executive shall be entitled to receive, from the Employer, General Severance Benefits, as described in Section 3.3 herein, if a Qualifying Termination of the Executive's employment has occurred other than during the twenty-four (24) months immediately following a Change in Control.
- (c) **No Severance Benefits.** The Executive shall not be entitled to receive Severance Benefits if the Executive's employment with the Employer ends for reasons other than a Qualifying Termination.



- (d) **General Release.** As a condition to receiving Severance Benefits under either Section 3.2 or 3.3 herein, the Executive shall be obligated to execute a general release of claims in favor of the Employer, its current and former affiliates and stockholders, and the current and former directors, officers, employees, and agents of the Employer, in the form attached hereto as Appendix C.
- (e) **No Duplication of Severance Benefits.** If the Executive becomes entitled to Change-in-Control Severance Benefits, the Severance Benefits provided for under Section 3.2 hereunder shall be in lieu of all other Severance Benefits provided to the Executive under the provisions of this Plan and any other Employer-related severance plans, programs, or agreements including, but not limited to, the Severance Benefits under Section 3.3 herein. Likewise, if the Executive becomes entitled to General Severance Benefits, the Severance Benefits provided under Section 3.3 hereunder shall be in lieu of all other Severance Benefits provided to the Executive under the provisions of this Plan and any other Employer-related severance plans, programs, or other agreements including, but not limited to, the Severance Benefits under Section 3.2 herein.

**3.2 Description of Change-in-Control Severance Benefits.** In the event the Executive becomes entitled to receive Change-in-Control Severance Benefits, the Employer shall provide the Executive with the following, subject to Section 3.2(h) and (i) herein:

- (a) A lump-sum amount paid within thirty (30) calendar days after the Effective Date of Termination equal to the Executive's unpaid Base Salary, accrued vacation pay, unreimbursed business expenses, and all other items earned by and owed to the Executive through and including the Effective Date of Termination.
- (b) A lump-sum amount paid within thirty (30) calendar days after the Effective Date of Termination equal to: (i) two (2) for Tier I Executives (as identified in Appendix A), or (ii) one and one quarter (1.25) for Tier II Executives (as identified in Appendix A), multiplied by the sum of the following: (A) the Executive's Base Salary and (B) the Executive's annual target bonus opportunity in the year of termination.
- (c) A lump-sum amount, paid within thirty (30) calendar days after the Effective Date of Termination equal to: (i) one (1) for Tier I Executives, or (ii) three-quarters (0.75) for Tier II Executives, multiplied by the sum of the following: (A) the Executive's Base Salary and (B) the Executive's annual target bonus opportunity in the year of termination. Such amount shall be consideration for the noncompete provisions contained in the Confidentiality and Loyalty Agreement attached hereto as Appendix B.
- (d) A lump-sum amount, paid within thirty (30) calendar days after the Effective Date of Termination, equal to the Executive's then current target bonus opportunity established under the bonus plan in which the Executive is then participating, for the plan year in which a Qualifying Termination occurs, adjusted on a pro rata

basis based on the number of days the Executive was actually employed during the bonus plan year in which the Qualifying Termination occurs.

- (e) Continuation of the Executive's medical insurance coverage for: (i) three (3) years for Tier I Executives, or (ii) two (2) years for Tier II Executives. These benefits shall be provided by the Employer to the Executive beginning immediately upon the Effective Date of Termination. Such benefits shall be provided to the Executive at the same coverage level and cost to the Executive as in effect immediately prior to the Executive's Effective Date of Termination. Such benefits shall count as COBRA continuation coverage.

Notwithstanding the above, these medical insurance benefits shall be discontinued prior to the end of the stated continuation period in the event the Executive receives substantially similar benefits from a subsequent employer, as determined solely by the Committee in good faith. For purposes of enforcing this provision, the Executive shall be deemed to have a duty to keep the Company informed as to the terms and conditions of any subsequent employment and the corresponding benefits earned from such employment, and shall provide, or cause to provide, to the Company in writing correct, complete, and timely information concerning the same.

Following the end of the COBRA continuation period, if such group health plan coverage is provided under a health plan that is subject to Code Section 105(h), the benefits payable under such health plan to Executive shall comply with the requirements of Treasury Regulation section 1.409A-3(i)(1)(iv) and, if necessary, the Employer shall amend such health plan to comply therewith.

In addition, no later than the end of each calendar year in which such group health plan coverage is in effect, if the Company will report the value of the group health plan coverage (less any amount the Executive pays for such coverage) as taxable income to the Executive.

- (f) Treatment of outstanding long-term incentives shall be in accordance with Section 3.4(a) herein.
- (g) Outplacement services through the provider of the Employer's choice with the total cost not to exceed twenty-five percent (25%) of the Executive's Base Salary. In no event shall such outplacement services continue for more than (i) two years for Tier I Executives or (ii) eighteen (18) months for Tier II Executives, following the Effective Date of Termination.
- (h) If the Executive is a "specified employee" as defined and applied in Code Section 409A as of the Effective Date of Termination, to the extent payments made under Sections 3.2(a), (b), (c), (d) or (e) constitute deferred compensation (after taking into account any applicable exemptions from Code Section 409A), and to the extent required by Code Section 409A, payments may not commence to be paid to Executive until the earlier of:
  - (i) the first day following the six month anniversary

of the Executive's Effective Date of Termination, or (ii) the Executive's date of death; provided, however, that any payments delayed during this six-month period shall be paid in a lump sum as soon as administratively practicable following the six month anniversary of the Executive's Effective Date of Termination. For purposes of Code Section 409A, each payment due under Sections 3.2 (a), (b), (c), (d) and (e) immediately above shall be considered a separate payment.

Notwithstanding the preceding paragraph, and to the extent permitted by Code Section 409A, during the six months following the Executive's Effective Date of Termination, the Company shall pay any amounts required to be paid by this Section 3.2 in accordance with the payment schedules specified in this Section 3.2 to the extent that such payments constitute "short-term deferrals" or would not exceed the limitations of the "separation pay plan" exceptions provided by Treasury Regulations and other guidance issued with respect to Code Section 409A. Any payments in excess of these limitations shall be paid after the six-month period described in accordance with the preceding paragraph.

- (i) If, after the Effective Date of Termination, the Committee determines in good faith that the Executive has breached any of his or her material obligations under the Confidentiality and Loyalty Agreement attached hereto as Appendix B, then, in addition to such other remedies and damages as may be available to the Company (including but not limited to injunctive relief), all Severance Benefits hereunder shall be forfeited and shall cease to be paid or provided immediately upon such determination. The Company shall promptly provide written notice thereof to the Executive.

**3.3 Description of General Severance Benefits.** In the event the Executive becomes entitled to receive General Severance Benefits, the Employer shall provide the Executive with the following, subject to Section 3.3(g) and (h) herein:

- (a) A lump-sum amount, paid within thirty (30) calendar days after the Effective Date of Termination, equal to the Executive's unpaid Base Salary, accrued vacation pay, unreimbursed business expenses, and all other items earned by and owed to the Executive through and including the Effective Date of Termination.
- (b) An amount, paid as a continuation of pay, equal to: (i) two (2) for Tier I Executives, and (ii) one and one-half (1.5) for Tier II Executives, multiplied by the sum of the following: (A) the Executive's Base Salary, and (B) the Executives annual target bonus opportunity in the year of termination. Such benefit amount shall be paid in equal installments in accordance with the normal payroll procedures of the Company for the period beginning on the Effective Date of Termination and ending twenty-four (24) months for Tier I Executives and eighteen (18) months for Tier II Executives thereafter. Notwithstanding the foregoing, payments shall be delayed until the next regularly scheduled payroll cycle immediately following the date on which the Executive's general release becomes effective and irrevocable, in which case any past-due payments shall be paid in a lump sum.

- (c) A lump-sum amount, if any, paid within two and one-half months after the end of the calendar year that includes the Effective Date of Termination, equal to the actual bonus that would have been payable to the Executive for the calendar year that includes the Effective Date of Termination based on actual performance if the Executive had remained employed through the end of such calendar year; provided however, that such amount shall be adjusted on a prorata basis based on the number of days the Executive was actually employed during the bonus plan year in which the Qualifying Termination occurs.
- (d) Continuation of the Executive's medical insurance coverage for: (i) 2 years for Tier I Executives, or (ii) eighteen (18) months for Tier II Executives. These benefits shall be provided by the Employer to the Executive beginning immediately upon the Effective Date of Termination. Such benefits shall be provided to the Executive at the same coverage level and cost to the Executive as in effect immediately prior to the Executive's Effective Date of Termination. Such benefits shall count as COBRA continuation coverage.

Notwithstanding the above, these medical insurance benefits shall be discontinued prior to the end of the stated continuation period in the event the Executive receives substantially similar benefits from a subsequent employer, as determined solely by the Committee in good faith. For purposes of enforcing this provision, the Executive shall be deemed to have a duty to keep the Company informed as to the terms and conditions of any subsequent employment and the corresponding benefits earned from such employment, and shall provide, or cause to provide, to the Company in writing correct, complete, and timely information concerning the same.

Following the end of the COBRA continuation period, if such group health plan coverage is provided under a health plan that is subject to Code Section 105(h), the benefits payable under such health plan to Executive shall comply with the requirements of Treasury Regulation section 1.409A-3(i)(1)(iv) and, if necessary, the Employer shall amend such health plan to comply therewith.

In addition, no later than the end of each calendar year in which such group health plan coverage is in effect, if the Company will report the value of the group health plan coverage (less any amount the Executive pays for such coverage) as taxable income to the Executive.

- (e) Treatment of outstanding long-term incentives shall be in accordance with Section 3.4(b) herein.
- (f) Outplacement services through the provider of the Employer's choice with the total cost not to exceed twenty-five percent (25%) of the Executive's Base Salary. In no event shall such outplacement services continue for more than two years following the Effective Date of Termination.

- (g) If the Executive is a “specified employee” as defined and applied in Code Section 409A, as of the Effective Date of Termination, to the extent payments made under Sections 3.3(a), (b), (c) or (d) constitute deferred compensation (after taking into account any applicable exemptions from Code Section 409A), and to the extent required by Code Section 409A, payments may not commence to be paid to Executive until the earlier of: (i) the first day following the six month anniversary of the Executive’s Effective Date of Termination, or (ii) the Executive’s date of death; provided, however, that any payments delayed during this six-month period shall be paid in a lump sum as soon as administratively practicable following the six month anniversary of the Executive’s Effective Date of Termination. For purposes of Code Section 409A, each payment due under Sections 3.3(a), (b), (c) and (d) immediately above shall be considered a separate payment.

For purposes of the preceding paragraph, and to the extent permitted by Code Section 409A, during the six months following the Executive’s Effective Date of Termination, the Company shall pay any amounts required to be paid by this Section 3.3 in accordance with the payment schedules specified in this Section 3.3 to the extent that such payments constitute “short-term deferrals” or would not exceed the limitations of the “separation pay plan” exceptions provided by Treasury Regulations and other guidance issued with respect to Code Section 409A. Any payments in excess of these limitations shall be paid after the six-month period described in accordance with the preceding paragraph.

- (h) If, after the Effective Date of Termination, the Committee determines in good faith that the Executive has breached any of his or her material obligations under the Confidentiality and Loyalty Agreement attached hereto as Appendix B, then, in addition to such other remedies and damages as may be available to the Company (including but not limited to injunctive relief), all Severance Benefits hereunder shall be forfeited and shall cease to be paid or provided immediately upon such determination. The Company shall promptly provide written notice thereof to the Executive.

### **3.4 Impact on Long-Term Incentives**

- (a) **Upon a Change in Control.** Unless an Executive’s separate award agreement provides a more favorable result, upon the occurrence of a Change in Control, all outstanding long-term incentives shall be treated as follows:
- (i) Unvested stock options shall become fully vested and shall remain exercisable for a period of three (3) months from the date of the Change in Control or the last day of the option term, whichever occurs first;
  - (ii) Unvested shares of restricted stock and unvested restricted stock units that vest solely based on the passage of time shall become fully vested; and
  - (iii) Unearned performance shares and performance units, and unearned shares of restricted stock and restricted stock units that vest based on the

achievement of one or more performance goals, shall be paid out at target, adjusted on a prorata basis based on the number of days the Executive was actually employed during the relevant performance period in which the Change in Control occurred.

Notwithstanding the foregoing:

(x) if the Change in Control results from a sale of assets described in Article 2(h)(iii), then the foregoing provisions will apply only if the Executive experiences a Qualifying Termination from A. O. Smith Corporation and its affiliates within twenty-four (24) months immediately following such Change in Control, and in such case (A) when applying the foregoing provisions, the date of the Change in Control shall be deemed the individual's date of termination of employment and (B) Section 3.4(b) shall not apply; and

(y) in the case of a Business Unit Change in Control, the foregoing provisions shall not cause the acceleration of payment of an award that is subject to Code Section 409A unless the Business Unit Change in Control qualifies as a change in ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation, within the meaning of Code Section 409A or another provision of Code Section 409A permits the acceleration of payment thereof. If payment of the award cannot be made upon the Business Unit Change in Control as a result of the application of Code Section 409A, the award will be paid upon the dates or events as otherwise provided under the terms of the award.

(b) **Upon a Qualifying Termination.** Unless an Executive's separate award agreement provides a more favorable result, upon a Qualifying Termination that entitles the Executive to General Severance Benefits as provided in Section 3.1(b) herein:

- (i) All outstanding and unvested long-term incentives granted to Executive during the calendar year in which the Effective Date of Termination occurs shall be forfeited by the Executive; and
- (ii) All outstanding and unvested long-term incentives that were granted to Executive prior to the calendar year in which the Effective Date of Termination occurs shall be treated as follows:
  - (I) Unvested stock options shall vest on a prorata basis and shall remain exercisable for a period of three (3) months from the Effective Date of Termination or the last day of the option term, whichever occurs first;
  - (II) Unvested shares of restricted stock and unvested restricted stock units that vest based solely on the passage of time shall vest on a prorata basis; and

- (III) Unearned performance shares and performance units, and unearned shares of restricted stock and restricted stock units that vest based on the achievement of one or more performance goals, shall be paid following the end of the respective performance periods on a prorata basis based on actual performance determined at the end of the respective performance periods.

For purposes of clauses (I), (II) and (III), the prorata portion of the award that will become vested shall be determined by multiplying the total number of options, shares or units subject to an award, by a fraction, the numerator of which is the number of completed months in which the Executive was employed from the grant date to the Effective Date of Termination, and the denominator of which is the number of months required for the award to vest in full, and then reducing therefrom the number of options, shares or units that have previously been vested.

#### **Article 4 Excise Tax Gross Up**

- (a) Subject to Section 4(b) below, if in connection with a Change in Control the Executive would be or is subject to an excise tax under Code Section 4999 with respect to any cash, benefits or other property received, or any acceleration of vesting of any benefit or award (the "Change in Control Benefits"), the Company shall pay the Executive an amount (a "Gross-Up Payment") equal to the sum of: (i) the amount of such excise tax, plus (ii) all taxes, interest and penalties, including, without limitation, any federal, state and local income taxes and any additional excise taxes, that become payable by the Executive as a result of the receipt of the Gross-Up Payment (together, the "Excise Tax"). In determining the amount of any Gross-Up Payment, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made, and state and local taxes at the highest marginal rates of taxation for such year in the state and locality of the Executive's residence. For such purposes, federal income taxes shall be determined net of the maximum reduction in such federal income taxes that could be obtained from the deduction of such state and local taxes.
- (b) Notwithstanding Section 4(a), if the Change in Control Benefits, when calculated on a net-after-tax basis (using the assumptions set forth in the last sentence of Section 4(a)), are less than 110% of the amount that could be paid to the Executive without imposition of the excise tax under Code Section 4999, the Change in Control Benefits payable under this Agreement shall be reduced to the largest amount payable without resulting in the imposition of such excise tax.
- (c) Within thirty (30) days after the Executive's Effective Date of Termination, a nationally recognized accounting or law firm selected by the Company shall make a determination as to whether any Excise Tax should be reported and paid by the Executive, and if applicable, the amount of such Excise Tax and the related Gross-Up Payment. Within thirty (30) days after such determination, the Company shall pay the amount of such Gross-Up Payment to the Executive, and

the Executive shall report and pay such Excise Tax. The Company shall be responsible for all fees and expenses connected with the determinations by the accounting or law firm pursuant to this Section 4.

- (d) In the event that the Executive is at any time required to pay any Excise Tax in addition to any amount determined pursuant to subsection (a), the Company shall pay the Executive a Gross-Up Payment determined with respect to such additional Excise Tax, within thirty (30) days of such determination. In the event that the Executive receives any refund of any Excise Tax with respect to which the Executive has previously received a Gross-Up Payment hereunder, the Executive shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto).
- (e) The Executive agrees to notify the Company in the event of any audit or other proceeding by the IRS or any taxing authority in which the IRS or other taxing authority asserts that any Excise Tax should be assessed against the Executive and to cooperate with the Company in contesting any such proposed assessment with respect to such Excise Tax (a "Proposed Assessment"). The Executive agrees not to settle any Proposed Assessment without the consent of the Company. If the Company does not settle the Proposed Assessment, or does not consent to allow Executive to settle the Proposed Assessment, within thirty (30) days following such demand therefore, the Company shall indemnify and hold harmless the Executive: (i) with respect to any additional interest and/or penalties that the Executive is required to pay by reason of the delay in finally resolving the Executive's tax liability, and (ii) with respect to any taxes, interest and penalties that the Executive is required to pay by reason of any indemnification payment under this subsection (e).
- (f) The Company shall pay the Executive all Gross-Up Payments at the times described herein, but in no event later than the end of the calendar year following the calendar year in which the Executive made such remittance.

#### **Article 5 Legal Fees and Notice**

**5.1 Payment of Legal Fees.** Except as otherwise agreed to by the parties, the Company shall reimburse the Executive for Executive's costs of litigation or other disputes including, without limitation, reasonable attorneys' fees incurred by the Executive in asserting any claims or defenses under this Plan, except that the Executive shall bear his or her own costs of such litigation or disputes (including, without limitation, attorneys' fees) if the court (or arbitrator) finds in favor of the Company with respect to any claims or defenses asserted by the Executive. The Company shall promptly reimburse the Executive for such costs upon receipt from Executive of copies of invoices, provided that reimbursement must be completed no later than the end of the calendar year following the calendar year in which such costs are incurred.

**5.2 Notice.** Any notices, requests, demands, or other communications provided for by this Plan shall be sufficient if in writing and if sent by registered or certified mail to the Executive at the last address he or she has filed in writing with the Company or, in the case of the Company, at its principal offices to the attention of the General Counsel.



## **Article 6 Successors and Assignment**

**6.1 Successors to the Company.** The Company shall require any successor (whether direct or indirect, by purchase, merger, reorganization, consolidation, acquisition of property or stock, liquidation, or otherwise) of all or a significant portion of the assets of the Company or a Business Unit by agreement, to expressly assume and agree to perform under this Plan in the same manner and to the same extent that the Employer would be required to perform if no such succession had taken place. Regardless of whether such agreement is executed, the terms of this Plan shall be binding upon any successor in accordance with the operation of law and such successor shall be deemed the "Company" or the "Employer", as applicable, for purposes of this Plan.

**6.2 Assignment by the Executive.** This Plan shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If the Executive dies while any amount would still be payable to him or her hereunder had he or she continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to the Executive's designated beneficiary(ies) under the Beneficiary Designation for the A.O. Smith Combined Incentive Plan and the A.O. Smith Deferred Compensation Plan. If the Executive has not named a beneficiary, then such amounts shall be paid to the Executive's estate.

## **Article 7 Appeals Procedures**

**7.1 Initial Claim.** If the Executive (or beneficiary) believes he is entitled to a benefit hereunder that was not provided, the Executive or beneficiary (hereinafter referred to as the "claimant") shall file a written claim for such benefit with the Committee no later than one year after the claimed benefit would have been due and payable. If for any reason a claim for benefits under this Plan is denied by the Committee, the Committee shall deliver to the claimant a written explanation setting forth the specific reasons for the denial, pertinent references to the section of the Plan on which the denial is based, a description of such other data as may be pertinent to the claim review, and information on the procedures to be followed by the claimant in obtaining a review of his claim, and his right to file a civil suit pursuant to ERISA section 502, all written in a manner calculated to be understood by the claimant. For this purpose, the claimant's claim shall be deemed filed when presented in writing to the Committee, and the Committee's explanation shall be in writing delivered to the claimant within ninety (90) days of the date the claim is filed.

**7.2 Request for Review.** The claimant shall have sixty (60) days following his receipt of the denial of the claim to file with the Committee a written request for review of the denial. For such review, the claimant or his representative may review pertinent documents and submit written issues and comments. The Committee shall decide the issue on review and furnish the claimant with a copy of its decision within sixty (60) days of receipt of the claimant's request for review of his claim. The decision on review shall be final and binding and in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent provisions of the Plan on which the decision is based. If a copy of the decision is not so furnished to the claimant within such sixty (60) days, the claim shall be deemed denied on review.

## Article 8 Miscellaneous

**8.1 Employment Status.** Except as may be provided under any other agreement between the Executive and the Employer, the employment of the Executive by the Employer is “at will” and may be terminated by either the Executive or the Employer at any time, subject to applicable law.

**8.2 Entire Plan.** This Plan supersedes any prior agreements or understandings, oral or written, between the parties hereto, with respect to the subject matter hereof, and constitutes the entire agreement of the parties with respect thereto. Without limiting the generality of the foregoing sentence, this Plan completely supersedes any and all prior employment agreements entered into by and between the Employer and the Executive, and all amendments thereto, in their entirety.

**8.3 Severability.** In the event that any provision or portion of this Plan shall be determined to be invalid or unenforceable for any reason, the remaining provisions of this Plan shall be unaffected thereby and shall remain in full force and effect.

**8.4 Tax Withholding.** The Employer may withhold from any benefits payable under this Plan all federal, state, city, or other taxes as may be required pursuant to any law or governmental regulation or ruling.

**8.5 Payment Obligation Absolute.** Except as provided in Section 3.2(i) and Section 3.3(h), the Employer’s obligation to make the payments provided for herein shall be absolute and unconditional, and shall not be affected by any circumstances, including, without limitation, any offset, counterclaim, recoupment, defense, or other right which the Employer may have against the Executive or anyone else.

The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Plan, and except as provided in Section 3.2(i) and Section 3.3(h), the obtaining of any such other employment shall in no event effect any reduction of the Employer’s obligations to make the payments and arrangements required to be made under this Plan.

**8.6 Contractual Rights to Benefits.** This Plan establishes and vests in the Executive a contractual right to the benefits to which he or she is entitled hereunder. However, nothing herein contained shall require or be deemed to require, or prohibit or be deemed to prohibit, the Employer to segregate, earmark, or otherwise set aside any funds or other assets, in trust or otherwise, to provide for any payments to be made or required hereunder.

**8.7 Modification.** No provision of this Plan may be modified, waived, or discharged in a manner that adversely affects the rights of the Executive unless such modification, waiver, or discharge is agreed to in writing and signed by the Executive affected thereby and by an authorized member of the Committee, or by the respective parties’ legal representatives and successors.

**8.8 Gender and Number.** Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

**8.9 Applicable Law.** The laws of the state of Delaware, without reference to conflict of law principles thereof, shall be the controlling law in all matters relating to this Plan. Notwithstanding the foregoing, the Confidentiality and Loyalty Agreement attached as Appendix B shall be governed by the laws of the state of Wisconsin.

IN WITNESS WHEREOF, the Company has executed this Plan on this \_\_\_\_\_ day of \_\_\_\_\_ 2009.

ATTEST

A. O. Smith Corporation

\_\_\_\_\_  
Paul W. Jones  
Chairman and Chief Executive Officer

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## Appendix A

### Tier I Executives

Chairman and Chief Executive Officer of the Company

### Tier II Executives

Executive Vice President, President of EPC

Executive Vice President, President of WPC

Executive Vice President, General Counsel & Secretary

Executive Vice President and Chief Finance Officer

Senior Vice President, Human Resources & Public Affairs

Senior Vice President and Chief Information Officer

Senior Vice President, Corporate Development

Senior Vice President, Corporate Finance and Controller

President, A. O. Smith China Investment Co. Ltd.

CONFIDENTIALITY AND LOYALTY AGREEMENT

AGREEMENT made as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, between A. O. SMITH CORPORATION, a Delaware corporation (together with its successors, assigns and Affiliates, the “Company”), and \_\_\_\_\_ (“Executive”).

WHEREAS, in light of the Company’s size and its visibility as a New York Stock Exchange-traded company that reports its results to the public, the Company has attracted attention of other companies and businesses seeking to obtain for themselves or their customers some of the Company’s business acumen and know-how; and

WHEREAS, the Company has shared with Executive certain aspects of its business acumen and know-how as well as specific confidential and proprietary information about the products, markets, manufacturing processes, costs, developments, ideas, and personnel of the Company; and

WHEREAS, the Company has imbued Executive with certain aspects of the goodwill that the Company has developed with its customers, distributors, representatives and employees, and with federal, state, local and foreign governmental entities; and

WHEREAS, as consideration for entering into this Agreement, the Company is extending to Executive the opportunity to be covered under the A. O. Smith Corporation Senior Leadership Severance Plan (For Tier I and Tier II Executives) (the “Plan”);

NOW, THEREFORE, in consideration of the foregoing, and of the respective covenants and agreements of the parties set forth in this Agreement and the Plan, the parties hereto agree as follows:

1. Definitions. As used in this Agreement, the following terms have the meanings indicated:

a. “Affiliate” shall mean any subsidiary or other entity that, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with A. O. Smith Corporation, whether now existing or hereafter formed or acquired. For purposes hereof, “control” means the power to vote or direct the voting of sufficient securities or other interests to elect one-third of the directors or managers or to control the management of such subsidiary or other entity.

b. “Competitive Business” means any corporation, partnership, association, or other person or entity, including but not limited to Executive, (i) which competes directly, or is planning to compete directly and Executive is on notice of that fact, with the Company with respect to

(x) the products and services described on Exhibit A, or

(y) any other business of the Company,

in the case of clause (x) or clause (y), that at any time during the most recent eighteen (18) months of Executive's Company Employment was either: (A) within Executive's management, operational, marketing, purchasing or sales responsibility, including the responsibility of personnel reporting directly to Executive, or (B) a business about which Executive retained or received any Confidential Information or Trade Secrets of the Company, and

(ii) which engages or plans to engage in such competition in any country of the World in which the Company sold or distributed, or actively attempted to sell or to distribute, such products and/or services during the most recent eighteen (18) months of Executive's Company Employment and in which the Company continues to sell or distribute, or actively attempted to sell or to distribute, such products and/or services.

c. "Confidential Information" means information related to the Company's business, not generally known in the trade or industry, which Executive learns or creates during the period of Executive's Company Employment, which may include but is not limited to product specifications, manufacturing procedures, methods, equipment, compositions, technology, formulas, know-how, research and development programs, sales methods, customer lists, customer usages and requirements, personnel evaluations and compensation data, computer programs and other confidential technical or business information and data.

d. "Executive's Company Employment" means the time (including time prior to the date hereof) during which Executive is employed by any entity comprised within the definition of "Company", regardless of any change in the entity actually employing Executive.

e. "Goodwill" means any tendency of customers, distributors, representatives, employees, vendors, suppliers, or federal, state, local or foreign governmental entities to continue or renew any valuable business relationship with the Company or any Competitive Business with which Executive may be associated, based in whole or in part on past successful relationships with the Company or the lawful efforts of the Company to foster such relationships, and in which Executive, or any personnel reporting directly to Executive, actively participated at any time during the most recent eighteen (18) months of Executive's Company Employment.

f. "Inventions" means designs, discoveries, improvements and ideas, whether or not patentable or otherwise legally protectable, including, without limitation upon the generality of the foregoing, novel or improved products, processes, machines, promotional and advertising materials, business data

processing programs and systems, and other manufacturing and sales techniques, which either (i) relate to (A) the business of the Company or (B) the Company's actual or demonstrably anticipated research or development, or (ii) result from any work performed by Executive for the Company.

g. "Trade Secret(s)" means information, including a formula, pattern, compilation, program, device, method, technique or process, that derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and that is the subject of efforts to maintain its secrecy that are reasonable under the circumstances.

## 2. Disclosure and Assignment of Inventions.

a. Executive agrees to disclose to the Company and to assign to the Company, and hereby does assign to the Company, all of Executive's rights in any Inventions or Trade Secrets conceived or reduced to practice at any time during Executive's Company Employment, either solely or jointly with others and whether or not developed on Executive's own time or with the Company's resources. Executive further agrees to assign, and hereby does assign, to the Company any legal rights in and to any intellectual property (*e.g.*, patents, copyrights, etc.) associated with or covering any Inventions or Trade Secrets. Executive agrees that Inventions first reduced to practice within one (1) year after termination of Executive's Company Employment shall be treated as if conceived during such employment unless Executive can establish specific events giving rise to the conception that occurred after termination of such employment. Further, Executive disclaims and will not assert any rights in Inventions as having been made, conceived or acquired prior to Executive's Company Employment except such (if any) as are specifically listed at the conclusion of this Agreement. Executive agrees to create, maintain, preserve and make available to the Company, as part of the Company's property, complete and up-to-date records, including but not limited to correspondence, prototypes, models and other written or tangible data, relating to Inventions and Trade Secrets of the Company.

b. Executive shall cooperate with the Company and shall execute and deliver such documents and do such other acts and things as the Company may request, at the Company's expense, to obtain and maintain letters patent or registrations covering any Inventions and to vest in the Company all rights therein free of all encumbrances and adverse claims.

3. Confidentiality. In addition to all duties of loyalty imposed on Executive by law, during the term of Executive's Company Employment and for eighteen (18) months following the termination of such employment for any reason, Executive shall maintain Confidential Information in confidence and secrecy and shall not disclose Confidential Information or use it for the benefit of any person or organization (including Executive) other than the Company without the prior written consent of an authorized officer of the Company (except for disclosures to persons acting on the Company's behalf with a need to know such

information), under any circumstances where any Confidential Information so disclosed or used is reasonably likely to be used anywhere on behalf of any Competitive Business.

4. Non-Disclosure of Trade Secrets. During Executive's Company Employment, Executive shall preserve and protect Trade Secrets of the Company from unauthorized use or disclosure; and after termination of such employment, Executive shall not use or disclose any Trade Secret of the Company for so long as that Trade Secret remains a Trade Secret.

5. Third-Party Confidentiality. Executive shall not disclose to the Company, use on its behalf, or otherwise induce the Company to use any secret or confidential information belonging to persons or entities not affiliated with the Company, which may include a former employer of Executive, if Executive then has an obligation or duty to any person or entity (other than the Company) to not disclose such information to other persons or entities, including the Company. Executive acknowledges that the Company has disclosed that the Company is now, and may be in the future, subject to duties to third parties to maintain information in confidence and secrecy. By executing this Agreement, Executive consents to be bound by any such duty owed by the Company to any third party.

6. Return of Property. Executive shall, upon the Company's demand and in any event before or promptly upon termination of Executive's Company Employment, deliver to the Company the original and all copies of all documents, files, data, records and property of any nature whatsoever which are in Executive's possession or control and which are the property of the Company or which relate to the business activities, facilities or locations of the Company, or contain any Confidential Information or Trade Secrets of the Company, including any such records, documents or property created or maintained by Executive on any device or media Executive owns. Upon termination of employment with the Company, Executive agrees to attend an exit interview and to provide the Company with access to any personal computer, rolodex, PDA, or other device or media owned by Executive but used in the course of employment with the Company to ensure compliance with the terms of this Agreement.

7. Noncompetition. During Executive's Company Employment and for twenty-four (24) months (if Executive is a Tier I Executive as identified in Appendix A to the Plan) or eighteen (18) months (if Executive is a Tier II Executive as identified in Appendix A to the Plan) following the termination of such employment for any reason, Executive shall not, directly or indirectly, participate in, consult with, be employed by, or assist with the organization, planning, ownership, financing, management, operation or control of any Competitive Business in any capacity in which, in the absence of this Agreement, Confidential Information, Inventions, Trade Secrets of the Company or Goodwill would reasonably be considered useful.

8. Nonsolicitation. During Executive's Company Employment and for twenty-four (24) months (if Executive is a Tier I Executive as identified in Appendix A to the Plan) or eighteen (18) months (if Executive is a Tier II Executive as identified in Appendix A to the Plan) following the termination of such employment for any reason, Executive shall not, directly or indirectly, on behalf of any Competitive Business, either by himself or by providing substantial assistance to others, solicit to terminate employment with the Company, or to accept



or begin employment with or service to any Competitive Business, any employee of the Company whom Executive supervised or about whom Executive gained Confidential Information at any time during the most recent eighteen (18) months of Executive's Company Employment.

9. Non-disparagement. Executive shall not during Executive's Company Employment and for eighteen (18) months following the termination of such employment for any reason make any false, derogatory, or inflammatory statement whatsoever that defames, disparages or reflects negatively on the Company and/or any of its employees, officers, directors or shareholders. Nothing herein is intended to inhibit the ability of Executive to provide truthful information if Executive is under a paramount legal duty to do so or is otherwise required to do so in the course of any official investigation or proceeding or when testifying in response to a judicial subpoena or other lawful legal process. Upon receiving any such subpoena or process, Executive shall promptly notify the Company so as to afford it a reasonable opportunity to contest the legality or reasonableness of any such subpoena or process.

10. Future Employment. During Executive's Company Employment and for twenty-four (24) months (if Executive is a Tier I Executive as identified in Appendix A to the Plan) or eighteen (18) months (if Executive is a Tier II Executive as identified in Appendix A to the Plan) following the termination of such employment for any reason, before accepting any employment with any Competitive Business, Executive shall disclose to the Company the identity of any such Competitive Business and a complete description of the duties involved in such prospective employment, including a full description of any territory or market segment to which Executive will be assigned. Further, during Executive's Company Employment and for two years following the termination of such employment for any reason, Executive agrees that, before accepting any future employment, Executive will provide a copy of this Agreement to any prospective employer of Executive, and Executive hereby authorizes the Company to do likewise, whether before or after the outset of the future employment.

11. Cooperation. Executive agrees to cooperate with the Company and its attorneys in connection with any and all lawsuits, claims, investigations, or similar proceedings that have been or could be asserted at any time arising out of or related in any way to Executive's Company Employment. The Company shall reimburse Executive for his or her actual expenses incurred in complying with this provision.

12. Notices. All notices, request, demands and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered by hand or when mailed by United States certified or registered mail with postage prepaid addressed as follows:

a. If to Executive, to the address set forth by Executive on the signature page of this Agreement or to such other person or address which Executive shall furnish to the Company in writing pursuant to the above.

b. If to the Company, to the attention of the Company's General Counsel at the address set forth on the signature page of this Agreement or to such

other person or address as the Company shall furnish to Executive in writing pursuant to the above

13. Enforceability. Executive recognizes that irreparable injury may result to the Company, its business and property, and the potential value thereof in the event of a sale or other transfer, if Executive breaches any of the restrictions imposed on Executive by this Agreement, and Executive agrees that if Executive shall engage in any act in violation of such provisions, then the Company shall be entitled, in addition to such other remedies and damages as may be available, to an injunction prohibiting Executive from engaging in any such act.

14. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon and enforceable by A. O. Smith Corporation, its successors, assigns and Affiliates, all of which (other than A. O. Smith Corporation) are intended third-party beneficiaries of this Agreement. Executive hereby consents to the assignment of this Agreement to any person or entity.

15. Validity. Any invalidity or unenforceability of any provision of this Agreement is not intended to affect the validity or enforceability of any other provision of this Agreement, which the parties intend to be severable and divisible, and to remain in full force and effect to the greatest extent permissible under applicable law.

16. Governing Law. The laws of the state of Wisconsin, without reference to conflict of law principles thereof, shall be the controlling law in all matters relating to this Agreement.

17. Miscellaneous. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement may be modified only by a written agreement signed by Executive and a duly authorized officer of the Company.

EXECUTIVE ACKNOWLEDGES HAVING READ AND SIGNED THIS AGREEMENT AND HAVING RECEIVED A COPY THEREOF, INCLUDING THE FOLLOWING NOTICE:

This Agreement does not apply to an invention for which no equipment, supplies, facility, or trade secret information of the Company were used and which was developed entirely on Executive's own time, unless (a) the invention relates (i) to the business of the Company or (ii) to the Company's actual or demonstrably anticipated research or development, or (b) the invention results from any work performed by Executive for the Company.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first above written.

EXECUTIVE

Name: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

A. O. SMITH CORPORATION  
11270 WEST PARK PLACE  
P.O. BOX 23970  
MILWAUKEE, WI 53223-0970

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

Its: \_\_\_\_\_

1) the design, development, manufacture, assembly, marketing or sales of any of the following:

Electric motors for residential, commercial or industrial use

Water heaters and boilers for residential, commercial or industrial use; or

2) the development, marketing or sales of services relating to any of such products, including financing, aftermarket service, training, logistics support, or remanufacturing.

**GENERAL RELEASE**

In consideration for the severance pay and additional benefits to be provided by A. O. Smith Corporation (the "Company") under the A. O. Smith Corporation Senior Leadership Severance Plan (Severance Pay Plan), I, \_\_\_\_\_, release the Company and its affiliates and all of its officers, directors, employees and agents from all claims or causes of action that I now have, or may later learn about, arising out of my employment with the Company or my termination from the Company. This means that I cannot and will not file any claim, charge or lawsuit for the purpose of obtaining any monetary award above the amounts I am entitled to under the Severance Pay Plan or for any other type of legal remedy.

I acknowledge that this General Release includes, but is not limited to, all claims arising under federal, state or local laws prohibiting employment discrimination and all claims arising out of any legal restrictions on the Company's right to terminate its employees, including any breach of contract claims. This General Release also specifically encompasses all claims of employment discrimination based on race, color, religion, sex and national origin, as provided under Title VII of the Civil Rights Act of 1964, as amended or under Section 1981 of the Civil Rights Act of 1866, all claims of age discrimination under the Age Discrimination in Employment Act of 1967 (ADEA), as amended, all claims under the Employee Retirement Income Security Act (ERISA), all claims of employment discrimination under the Americans with Disabilities Act (ADA), as well as claims under any applicable state or local law concerning my employment. I understand that this General Release shall not apply to claims for benefits under applicable worker's compensation and unemployment compensation laws or any claim for benefits to which I am entitled to under the Company's benefit plans based on my status as a terminated employee. This General Release shall also not apply to any right or claim under the Age Discrimination and Employment Act of 1967 (ADEA) which arises after the date this General Release is executed.

I further agree that I will not disclose to any person, firm or corporation any secret, confidential or proprietary information of the Company or its affiliates, unless such information is in the public domain or is required to be disclosed by law. Such secret, confidential and proprietary information shall include, but not be limited to, such matters as the Company's product designs, costs, profits, markets, sales, pricing, product lines, policies, operational methods, suppliers, customers, systems and strategic plans. I also acknowledge my obligation to disclose and to assign to the Company any inventions conceived, made or participated in by me during the course of my employment with the Company.

I intend this General Release to be binding upon myself, my estate, heirs and assignees. I understand and agree that if I breach this General Release or if I file any claim or lawsuit against the Company seeking any equitable relief, all payments and benefits provided herein shall cease, and I or my estate shall be required to reimburse the Company for all payments and benefits I received under this Agreement prior to such time, including attorneys' fees incurred by the Company.

I have carefully read and fully understand all of the provisions of this General Release. [**If applicable:** I have been provided information which shows the ages and job classifications of all salaried employees of the Company's Division and the ages and job classifications of those employees whose positions are being eliminated in the current workforce reduction.] I further acknowledge that this General Release sets forth the entire agreement between the Company and me. In addition, I acknowledge that I have been given a period of at least twenty-one days [**Or if applicable:** forty-five days] to consider this General Release and that I have been advised to consult with an attorney of my choice during this period. Finally, I acknowledge that, in considering whether to sign this General Release, I have not relied upon any representation or statement by anyone, either written or oral, not set forth in this document and that I have not been threatened or coerced into signing this General Release by any official of the Company and that I have read, understand and fully and voluntarily accept the terms of this General Release.

I understand that this General Release may be revoked by me at any time during the seven day period after I have signed it. This General Release shall not become effective until after the revocation period has expired and no payment is required to be made until such period has expired.

BY: \_\_\_\_\_

DATE: \_\_\_\_\_

RECEIVED BY: \_\_\_\_\_

DATE: \_\_\_\_\_

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

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 function):
- 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.

Date: August 4, 2009

/s/ Paul W. Jones

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Paul W. Jones  
Chairman and Chief Executive Officer



**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Terry M. Murphy, 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 function):
- 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.

Date: August 4, 2009

/s/ Terry M. Murphy

Terry M. Murphy

Executive Vice President and Chief Financial Officer

Written Statement of the Chief Executive Officer and 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, each of the undersigned certifies that to the best of our knowledge:

- (1) the Quarterly Report Form 10-Q of A. O. Smith Corporation for the quarter ended June 30, 2009 (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.

Date: August 4, 2009

/s/ Paul W. Jones

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Paul W. Jones  
Chairman and Chief Executive Officer

/s/ Terry M. Murphy

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Terry M. Murphy  
Executive Vice President and Chief Financial Officer