SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2005.

OR

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

For the transition period from ______ to ______

Commission File Number 1-475

A.O. Smith CORPORATION

Delaware	**39-0619790**
(State of Incorporation)	**(IRS Employer ID Number)**

P. O. Box 245008, Milwaukee, Wisconsin 53224-9508
Telephone: (414) 359-4000

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 and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes ☒ No ☐

Class A Common Stock Outstanding as of June 30, 2005 — 8,474,752 shares

Common Stock Outstanding as of June 30, 2005 — 21,546,728 shares

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A. O. Smith Corporation

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ITEM 1 - FINANCIAL STATEMENTS

A.O. SMITH CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
Three and Six Months ended June 30, 2005 and 2004
(dollars in millions, except for per share data)
(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Electrical Products	$ 234.5	$ 227.7	$441.6	$451.3
Water Systems	204.0	209.6	406.5	402.5
Inter-segment Sales	(0.8)	—	(1.2)	—
Net Sales	437.7	437.3	846.9	853.8
Cost of products sold	353.5	348.9	674.6	687.2
Gross profit	84.2	88.4	172.3	166.6
Selling, general and administrative expenses	60.4	58.9	122.8	117.6
Restructuring and other charges	8.6	—	9.5	—
Interest expense	3.5	3.2	6.9	6.4
Other expense - net	0.7	0.3	0.8	0.5
	11.0	26.0	32.3	42.1
Provision for income taxes	4.5	8.7	11.5	14.1
Net Earnings	$ 6.5	$ 17.3	$ 20.8	$ 28.0
Earnings per Common Share				
Basic	$ 0.22	$ 0.59	$ 0.71	$ 0.96
Diluted	$ 0.22	$ 0.58	$ 0.69	$ 0.94
Dividends per Common Share	$ 0.16	$ 0.15	$ 0.32	$ 0.30

See accompanying notes to unaudited condensed consolidated financial statements.

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PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

A.O. SMITH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
June 30, 2005 and December 31, 2004
(dollars in millions)

	(unaudited) June 30, 2005	December 31, 2004
Assets		
Current Assets		
Cash and cash equivalents	$ 11.9	$ 25.1
Receivables	308.8	281.6
Inventories	226.9	233.5
Deferred income taxes	11.0	10.9
Other current assets	29.7	33.9
Total Current Assets	588.3	585.0
Property, plant and equipment	788.1	773.8
Less accumulated depreciation	439.5	415.0
Net property, plant and equipment	348.6	358.8
Goodwill	303.8	303.8
Other intangibles	9.7	9.4
Other assets	22.8	55.8
Total Assets	$ 1,273.2	$ 1,312.8
Liabilities		
Current Liabilities		
Trade payables	$ 170.3	$ 158.8
Accrued payroll and benefits	31.4	28.3
Accrued liabilities	38.2	32.0
Product warranty	16.6	17.5
Long-term debt due within one year	10.9	8.6
Total Current Liabilities	267.4	245.2
Long-term debt	226.1	272.5
Pension liability	60.2	87.9
Other liabilities	96.4	102.8
Deferred income taxes	16.3	13.8
Total Liabilities	666.4	722.2
Stockholders' Equity		
Class A common stock, $5 par value: authorized 14,000,000 shares; issued 8,507,347	42.5	42.6
Common stock, $1 par value: authorized 60,000,000 shares; issued 24,042,115	24.0	24.0
Capital in excess of par value	68.9	70.8
Retained earnings	659.8	648.4
Accumulated other comprehensive loss	(115.8)	(112.3)
Unearned compensation	(3.1)	(3.4)
Treasury stock at cost	(69.5)	(79.5)
Total Stockholders' Equity	606.8	590.6
Total Liabilities and Stockholders' Equity	$ 1,273.2	$ 1,312.8

See accompanying notes to unaudited condensed consolidated financial statements

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PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

A.O. SMITH CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2005 and 2004
(dollars in millions)
(unaudited)

	Six Months Ended June 30	
	2005	**2004**
Operating Activities		
Net earnings	$ 20.8	$ 28.0
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	26.0	26.8
Net change in current assets and liabilities	0.7	(43.8)
Net change in other noncurrent assets and liabilities	2.8	(1.3)
Other	0.9	2.2
Cash Provided by Operating Activities	51.2	11.9
Investing Activities		
Capital expenditures	(16.4)	(19.8)
Acquisition of business	—	(2.3)
Cash Used in Investing Activities	(16.4)	(22.1)
Financing Activities		
Long-term debt incurred	—	16.0
Long-term debt retired	(44.2)	(2.1)
Other stock transactions	6.1	3.0
Dividends paid	(9.4)	(8.8)
Cash (Used in) Provided by Financing Activities	(47.5)	8.1
Cash Used in Discontinued Operations	(0.5)	(0.4)
Net decrease in cash and cash equivalents	(13.2)	(2.5)
Cash and cash equivalents-beginning of period	25.1	18.7
Cash and Cash Equivalents - End of Period	$ 11.9	$ 16.2

See accompanying notes to unaudited condensed consolidated financial statements.

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PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

A. O. SMITH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005
(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, 2005 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. Certain prior year amounts have been reclassified to conform to the 2005 presentation.

2. Inventories (dollars in millions)

	June 30, 2005	December 31, 2004
Finished products	$ 160.6	$ 141.6
Work in process	53.7	57.7
Raw materials	79.0	81.7
	293.3	281.0
LIFO reserve	66.4	47.5
	$ 226.9	$ 233.5

3. Long-Term Debt

On June 10, 2004, a new $265 million, five year revolving credit facility was entered into with a group of eight banks. The new facility backs up commercial paper and credit line borrowings. As a result of the long-term nature of this facility, the commercial paper and credit line borrowings are classified as long-term debt.

4. Product Warranty (dollars in millions)

The company offers warranties on the sales of certain of its products and records an accrual for the estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims. The following table presents the company's warranty liability activity for the six-months ended June 30, 2005 and 2004, respectively:

4. Product Warranty (dollars in millions), continued

	2005	2004
Balance at January 1	$ 59.8	$ 62.1
Expense	12.3	14.7
Claims settled	(19.5)	(17.3)
Balance at June 30	$ 52.6	$ 59.5

Warranty expense for the six months ended June 30, 2005 included a net $3.0 million favorable adjustment in the first quarter at the Water Systems segment resulting from a change in estimate due to a change in customer return policies partially offset by steel cost increases.

5. Comprehensive Earnings (dollars in millions)

The company's comprehensive earnings are comprised of net earnings, foreign currency translation adjustments, and realized and unrealized gains and losses on cash flow derivative instruments.

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Net Earnings	$ 6.5	$ 17.3	$ 20.8	$ 28.0
Other comprehensive earnings (loss):				
Foreign currency translation adjustments	(0.7)	(0.5)	(0.8)	0.2
Unrealized net losses on cash flow derivative instruments less related income tax benefit: 2005 - $(2.2) & $(1.7), 2004 – $(5.8) & $(2.0)	(3.4)	(9.1)	(2.7)	(3.1)
Comprehensive Earnings	$ 2.4	$ 7.7	$ 17.3	$ 25.1

6. Earnings per Share of Common Stock

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

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6. **Earnings per Share of Common Stock, continued**

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Denominator for basic earnings per share - weighted average shares	29,532,444	29,276,224	29,470,866	29,237,388
Effect of dilutive stock options	598,495	637,125	597,374	675,656
Denominator for diluted earnings per share	30,130,939	29,913,349	30,068,240	29,913,044

7. **Stock Based Compensation**

The company has one stock-based employee compensation plan as more fully described in Note 9 of Notes to Consolidated Financial Statements of the Company's 2004 annual report on Form 10-K. SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The company has chosen to continue applying Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock options awarded under the plan. Accordingly, because the number of shares is fixed and the exercise price of the stock options equals the market price of the underlying stock on the date of grant, no compensation expense has been recognized.

Had compensation cost been determined based upon the fair value at the grant date for stock option awards under the plan based on the provisions of SFAS No. 123, the company's pro forma earnings and earnings per share would have been as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(dollars in millions, except per share amounts)	2005	2004	2005	2004
Earnings:				
As reported	$ 6.5	$ 17.3	$ 20.8	$ 28.0
Deduct: Total stock option compensation expense determined under fair value based method, net of tax	(0.1)	(0.5)	(0.3)	(1.0)
Pro forma	$ 6.4	$ 16.8	$ 20.5	$ 27.0
Earnings per share:				
As reported:				
Basic	$ 0.22	$ 0.59	$ 0.71	$ 0.96
Diluted	0.22	0.58	0.69	0.94
Pro forma:				
Basic	$ 0.22	$ 0.57	$ 0.69	$ 0.93
Diluted	0.21	0.56	0.68	0.90

7. Stock Based Compensation, continued

As described in Note 1 of Notes to Consolidated Financial Statements in the Form 10-K for the fiscal year ended December 31, 2004, the Financial Accounting Standards Board recently issued SFAS No. 123 (revised 2004), "Share-Based Payment", which is a revision of SFAS No. 123. The Company expects to adopt SFAS No. 123(R) on January 1, 2006.

8. Pensions (dollars in millions)

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

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Service cost	$ 2.4	$ 2.2	$ 4.7	$ 4.3
Interest cost	11.9	11.7	23.3	23.1
Expected return on plan assets	(15.8)	(16.2)	(30.7)	(32.4)
Amortization of net actuarial loss	2.9	1.0	5.0	1.8
Amortization of prior service cost	0.3	0.1	0.3	0.2
Defined benefit plan (income) expense	$ 1.7	$ (1.2)	$ 2.6	$ (3.0)

The Company made a voluntary $30 million contribution on June 30, 2005. The company does not expect to make any additional contributions in 2005.

9. Operations by Segment (dollars in millions)

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Net sales				
Electrical Products	$ 234.5	$ 227.7	$441.6	$451.3
Water Systems	204.0	209.6	406.5	402.5
Inter-Segment Sales	(0.8)	—	(1.2)	—
	$ 437.7	$ 437.3	$846.9	$853.8
Operating earnings				
Electrical Products (1)	$ 6.0	$ 17.4	$ 18.5	$ 34.5
Water Systems	18.8	18.7	39.7	27.5
	24.8	36.1	58.2	62.0
Corporate expenses (2)	(10.3)	(6.9)	(19.0)	(13.5)
Interest expense	(3.5)	(3.2)	(6.9)	(6.4)
Earnings before income taxes	11.0	26.0	32.3	42.1
Provision for income taxes	(4.5)	(8.7)	(11.5)	(14.1)
Net earnings	$ 6.5	$ 17.3	$ 20.8	$ 28.0

(1) reflects pre-tax restructuring and other charges of:	$ 7.4		$ 8.3	
(2) reflects pre-tax restructuring and other charges of:	$ 1.2		$ 1.2	

10. Restructuring and Other Charges

Electrical Products Restructuring and Other Costs

In April 2005, Electrical Products announced their intention to close the motor operation in Bray, Ireland which supplies large commercial hermetic motors to European air conditioning and refrigeration customers. As no tax deduction is available in Ireland for restructuring costs, the 2005 after-tax charge is expected to approximate $7.5 million. In the second quarter of 2005, the company recorded restructuring and related charges of $6.7 million related to the Bray plant closure. The Bray closure is substantially complete as of June 30, 2005, and is expected to generate annual savings of more than $3.0 million beginning in 2006.

The company has also announced an additional estimated $4.3 million pre-tax charge which will be recognized throughout 2005 associated with the acceleration of planned repositioning programs at domestic motor plants. Restructuring and related charges of $0.7 million and $1.6 million were recognized in the three-month and six-month periods ended June 30, 2005 for the domestic repositioning activities. The domestic repositioning activities are expected to be complete by December 31, 2005 and are expected to generate annual pre-tax savings of approximately $5.0 million.

The following table presents an analysis of the company’s Electrical Products restructuring reserve as of and for the six-months ended June 30, 2005 (dollars in millions):

	Severance Costs	Lease Cancellation Costs	Asset Impairment	Other	Total
Balance at December 31, 2004	$ —	$ —	$ —	$—	$—
Expense recognized	3.7	1.5	2.2	0.9	8.3
Cash payments	(3.1)	—	—	(0.3)	(3.4)
Asset disposal	—	—	(0.8)	—	(0.8)
Other	—	—	—	(0.2)	(0.2)
Balance at June 30, 2005	$ 0.6	$ 1.5	$ 1.4	$ 0.4	$ 3.9

Other Charges – Tower Automotive, Inc.

The company is the primary lessee on a facility lease in Corydon, Indiana related to a business sold to Tower Automotive, Inc. (Tower) in 1997. The lease has annual payments of $1.2 million and expires in February 2010. The company entered into a sublease arrangement with Tower in 1997 with the same terms and conditions as the company lease. Tower filed for bankruptcy on February 2, 2005. On April 15, 2005, Tower announced its intention to close the Corydon, Indiana facility by June 30, 2005. Tower subsequently notified the company that it will be rejecting the sublease arrangement effective October 1, 2005, as part of its bankruptcy proceedings. In connection with this notification, the company recognized a $1.2 million expense related to this contingent leasing liability which represents the company’s estimate of its ultimate net loss related to this arrangement.

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 2005 COMPARED TO 2004

Overall

Sales were $437.7 million in the second quarter of 2005, basically unchanged from the second quarter of 2004. Sales for the first half of 2005 were $846.9 million, slightly lower than $853.8 million in the same period last year. Sales in both the second quarter and first half of the year reflect price increases implemented in both of our businesses to offset higher material and freight costs. These price increases were for the most part offset by lower unit volumes.

Our gross margin in the second quarter of 2005 decreased to 19.2 percent from 20.2 percent in the same period of last year as a result of lower margins in our Electrical Products segment. Margins were negatively impacted by absorption associated with inventory reduction initiatives. The gross profit margin for the first half of 2005 was 20.3 percent compared with 19.5 percent in the first six months of 2004. The improved margin was due to increased pricing and the absence of the manufacturing inefficiencies caused by several conversion projects that were prevalent in our Water Systems segment in 2004.

Selling, general and administrative (SG&A) expenses in the second quarter and first half of 2005 were higher than the same periods in 2004 by $1.5 million and $5.2 million, respectively. Last year’s second quarter included a non-recurring gain of approximately $3.3 million from the favorable resolution of litigation related to State Industries’ Duron product. Corporate SG&A increased by $3.0 million in the second quarter of 2005 primarily as a result of higher pension expense and a $1.2 million pre-tax charge related to a contingent leasing liability at our discontinued automotive operation. Higher pension and corporate expense as well as increased selling and advertising costs in China also impacted our SG&A in the first six months of 2005.

Interest expense for the second quarter and first half of 2005 was higher than the comparable periods in 2004 by $.3 million and $.5 million, respectively, due to higher interest rates.

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 decreased from 9.0 percent in 2004 to 8.75 percent in 2005. The discount rate used to determine net periodic pension costs and credits decreased from 6.25 percent to 6.0 percent in 2005. Pension expense in the second quarter of 2005 was $1.7 million and compares to $1.2 million of pension income in the second quarter of 2004. Pension expense for the first half of 2005 was $2.6 million and compares to $3.0 million of pension income in the first half of 2004. Total pension expense for 2005 is projected to be $5.1 million. Our pension costs and credits are reflected in cost of products sold and SG&A.

Our year-to-date effective tax rate increased from 33% at the end of the first quarter to 35.6% at the end of the second quarter of 2005. The increase is due to the non-deductibility of the restructuring charge for foreign operations, resulting in an effective rate of 40.5% in the second quarter of 2005. Our effective tax rate for the second quarter and first half of 2004 was 33.5%.

Net earnings in the second quarter declined from $17.3 million or $.58 per share in 2004 to $6.5 million or $.22 per share in 2005. Our 2005 second quarter net earnings were reduced by an after-tax charge of $7.9 million or $.26 per share for restructuring and other charges which primarily related to the closing of our Bray, Ireland motor facility which was announced in April 2005. Our net earnings for the first six months of 2005 were $20.8 million or $.69 per share and compare with net earnings in the same period of 2004 of $28.0 million or $.94 per share. Our 2005 first half net earnings were reduced by an after-tax charge of $8.5 million or $.28 per share for restructuring and other charges.

Electrical Products

Second quarter sales for our Electrical Products segment were $234.5 million or 3 percent higher than sales of $227.7 million in the same quarter of 2004 as improved pricing more than offset weaker demand, primarily in markets adversely affected by cooler weather. These markets include HVAC, air-conditioning, and swimming pool pumps and the related sales through distribution. Year-to-date sales for this segment were $441.6 million or $9.7 million less than 2004.

Operating earnings for our Electrical Products segment in the second quarter of 2005 were $6.0 million, which were reduced by a $7.4 million pre-tax restructuring and other charge, and compares to $17.4 million in the second quarter of 2004. The $7.4 million restructuring charge is primarily related to the closure of our Bray, Ireland motor manufacturing facility. Though improved pricing offset higher material costs, reduced contribution on lower volume and reduced absorption of fixed manufacturing expense associated with inventory reduction initiatives resulted in the decline in operating earnings. First half operating earnings in 2005 were $18.5 million, which were reduced by pre-tax restructuring and other charges of $8.3 million, and compares to $34.5 million in the first half of 2004. Beginning in 2006, we believe our restructuring program will generate pre-tax savings of approximately $8 million.

Water Systems

Second quarter sales for our Water Systems segment decreased from $209.6 million in 2004 to $204.0 million in 2005. The decline was due to softer customer demand in the North American market which more than offset improved pricing and a 35 percent sales increase in our China water heater business. Sales from the wholesale side of the business were particularly weak as a result of significant customer purchases and inventory buildup late in 2004 and early 2005 in advance of a January 2005 price increase. First half sales in 2005 were $406.5 million or $4.0 million higher than the same period in 2004.

Operating earnings for our Water Systems segment were $18.8 million in the second quarter of 2005, about equal to $18.7 million of earnings in the second quarter of 2004 as significantly improved operating efficiency and improved pricing offset the impact of lower volumes. Last year's second quarter included a pre-tax non-recurring gain of approximately $3.3 million from the favorable resolution of litigation related to the State Industries' Duron product. First half operating earnings in 2005 were $39.7 million or $12.2 million higher than earnings of $27.5 million in the same period of 2004. The significant increase in earnings for the first six months of 2005 resulted from improved operating efficiency, a more normalized relationship between product price and material cost and a $3.0 million favorable adjustment to our warranty reserve.

Outlook

We issued a forecast for 2005 earnings of between $1.25 and $1.45 per share which includes after tax charges for restructuring and other costs. Excluding these expenses, our forecast is $1.60 to $1.80 per share. Earnings were $1.18 in 2004.

The increase in earnings will be driven by improved performance at Water Systems.

Liquidity & Capital Resources

Our working capital at June 30, 2005 was $320.9 million, $18.9 million lower than at the end of December 2004. Sales related increases in accounts receivable were more than offset by improvements in other working capital accounts. Cash provided by operating activities through the second quarter of 2005 was $51.2 million, a significant improvement over the $11.9 million provided through the second quarter of 2004, primarily as a result of a smaller investment in working capital this year compared with the same period one year ago. We continue to expect cash provided by operating activities for the total year 2005 to be $120 to $130 million.

Our capital expenditures during the first half of 2005 totaled $16.4 million compared with $19.8 million one year ago. We are projecting 2005 capital spending to be between $50 and $55 million, and in the same range as expected depreciation and amortization for the year. The increased capital spending in the second half of the year will include spending for the previously announced expansion of our Nanjing, China water heater operation. We believe that our present facilities and planned capital expenditures are sufficient to provide adequate capacity for our operations in 2005.

During the quarter, our company received $27.3 million payment against its dip tube receivable, leaving a balance of approximately $6.7 million that will be collected in the second half of this year. This will result in the complete recovery of receivables associated with this dispute. All litigation associated with this issue has been concluded.

We made a voluntary $30 million contribution to our pension plan on June 30, 2005. The company does not expect to make any additional contributions in 2005.

Our total debt decreased $44.1 million from $281.1 million at December 31, 2004 to $237.0 million at June 30, 2005. Our leverage as measured by the ratio of total debt to total capitalization was 28%, down from 32% at the end of 2004. We did not enter into any significant operating leases during the second quarter of 2005. At June 30, 2005, our company had available borrowing capacity of $195.9 million under our credit facility. We believe that the combination of available borrowing capacity and operating cash flow will provide sufficient funds to finance our existing operations for the foreseeable future.

On July 12, 2005, our board of directors declared a regular quarterly dividend of $.16 per share on our Common stock and Class A common stock, which is payable on August 15, 2005 to shareholders of record on July 29, 2005.

Critical Accounting Policies

Our accounting policies are described in Note 1 of Notes to Consolidated Financial Statements as disclosed in the Form 10-K for the fiscal year ended December 31, 2004. Also as disclosed in Note 1, the preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with the evaluation of the impairment of goodwill, as well as significant estimates used in the determination of liabilities related to warranty activity, litigation, product liability, environmental matters and pensions and other post-retirement benefits. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact-specific and takes into account factors such as historical experience and trends, and in some cases, actuarial techniques. We constantly reevaluate these significant factors and adjustments are made when facts and circumstances dictate. Historically, actual results have not significantly deviated from those determined using the estimates described above.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

As is more fully described in our annual report on Form 10-K for the year ended December 31, 2004, we are exposed to various types of market risks, primarily currency and certain commodities. We monitor our risks in these areas on a continuous basis and generally enter into forward and futures contracts to minimize these exposures 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

The chief executive officer and principal financial officer have evaluated the effectiveness of the company's disclosure controls and procedures as of June 30, 2005 and have concluded that these disclosure controls and procedures were adequate and effective to ensure that material information relating to the company and its consolidated subsidiaries would be made known to them by others within those entities.

Changes in internal controls

There were no significant changes in our internal controls over financial reporting or in other factors that could significantly affect our disclosure controls and procedures nor were there any significant deficiencies or material weaknesses in our internal controls. As a result, no corrective actions were required or undertaken.

Forward Looking Statements

This filing contains statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "continue," 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 increases in raw material prices; competitive pressures on the company's businesses; instability in the company's electric motor and water products markets; adverse changes in general economic conditions; and the potential that assumptions on which the company based its expectations are inaccurate or will prove to be incorrect.

Forward-looking statements included in this filing are made only as of the date of this filing, and our 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 A. O. Smith, or persons acting on its behalf, are qualified entirely by these cautionary statements.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

In the legal matters discussed in Note 12 of the Notes to Consolidated Financial Statements in the company's Form 10-K Report for the year ended December 31, 2004, which is incorporated herein by reference, the company reported on the status of the direct action lawsuit that was brought in the Civil District Court for the Parish of Orleans, State of Louisiana by A. O. Smith Corporation, Bradford White Company, American Water Heater Company, Lochinvar Corporation and State Industries, Inc. (the "water heater manufacturers") against Perfection Corporation and American Meter Company, the parent company of Perfection, and their insurers to recover various damages caused by deteriorating dip tubes that were manufactured by Perfection Corporation. The water heater manufacturers have resolved their dispute with Perfection Corporation and American Meter Company and their insurers and have dismissed the lawsuit pending in Louisiana. The company has also resolved its separate insurance claims for property damages in connection with defective dip tubes. The aggregate of settlements payable to the company and its subsidiary, State Industries, Inc., is $34,078,691 which fully covers the receivable referenced in Footnote 12 to the Financial Statements for the year ended December 31, 2004. Approximately 80 percent of the settlement amount has been received by the company as of June 30, 2005. The balance will be paid to the company in 2005.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On March 7, 2005, the company mailed a proxy statement to its stockholders relating to the annual meeting of stockholders on April 11, 2005. The annual meeting included the election of directors and the ratification of Ernst & Young LLP as the independent registered public accounting firm of the company for 2005.

Directors are elected by a plurality of votes cast, by proxy or in person, with the holders voting as separate classes. A plurality of votes means that the nominees who receive the greatest number of votes cast are elected as directors. Consequently, any shares which are not voted, whether by abstention, broker nonvotes or otherwise, will have no effect on the election of directors.

For all other matters considered at the meeting, both classes of stock vote together as a single class, with the Class A Common Stock entitled to one vote per share and the Common Stock entitled to 1/10th vote per share. All such other matters are decided by a majority of the votes cast. On such other matters, an abstention will have the same effect as a "no" vote but, because shares held by brokers will not be considered to vote on matters as to which the brokers withhold authority, a broker nonvote will have no effect on the vote.

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1. Election of Directors

Class A Common Stock Directors	Votes For	Votes Withheld
Ronald D. Brown	8,246,739	1,089
Paul W. Jones	8,246,559	1,269
Robert J. O'Toole	8,240,558	7,270
Bruce M. Smith	8,239,279	8,549
Mark D. Smith	8,239,279	8,549
Gene C. Wulf	8,246,559	1,269

Common Stock Directors	Votes For	Votes Withheld
William F. Buehler	18,657,246	1,331,231
Dennis J. Martin	18,562,346	1,426,150

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

Combined Class Vote	Votes For	Votes Against	Broker Abstentions
Class A Common Stock and Common Stock (1/10th vote)	10,223,705	20,966	2,007

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

On April 15, 2005, the Company filed a Current Report on Form 8-K, reporting under Items 2.02, 2.05, and 9.01, announcing the Company's results for the quarter ended March 31, 2005 and the closure of its Bray, Ireland Plant.

On June 17, 2005 the Company filed a Current Report on Form 8-K, reporting under Item 5.02, announcing Kenneth W. Krueger's resignation.

On June 24, 2005, the Company filed a Current Report on Form 8-K, reporting under Items 7.01 and 9.01, lowering its forecast for 2005.

On June 24, 2005, the Company filed a Current Report on Form 8-K, reporting under Items 7.01 and 9.01, announcing that it is in exclusive discussions with the majority shareholders of GSW Inc. regarding the possible purchase of GSW Inc. by A. O. Smith Corporation.

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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 2, 2005

/s/ John J. Kita

John J. Kita
Vice President,
Treasurer and Controller

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INDEX TO EXHIBITS

Exhibit Number	Description
10	Separation Agreement dated July 18, 2005 by and between A. O. Smith Corporation and Kenneth W. Krueger.
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 Principal 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 Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

Exhibit 10

SEPARATION AGREEMENT

THIS AGREEMENT, by and between A. O. Smith Corporation, a Delaware corporation, hereinafter referred to as "A. O. Smith" and Kenneth W. Krueger, an individual, hereinafter referred to as "Krueger".

WHEREAS, Krueger is currently employed by A. O. Smith in the capacity of Senior Vice President and Chief Financial Officer of A. O. Smith Corporation and

WHEREAS, A. O. Smith and Krueger desire to terminate the employment relationship under the terms acceptable to the parties.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, it is agreed as follows:

1. Krueger will resign as the Senior Vice President and Chief Financial Officer of A. O. Smith Corporation effective June 30, 2005.
2. Krueger shall remain as an active employee on the A. O. Smith payroll at his current base salary until July 31, 2005 at which time his employment with A. O. Smith shall terminate. While on the active payroll, Krueger shall make himself available to perform such duties as may be reasonably requested by A.O. Smith's Chief Executive Officer or his designee.
3. Effective on July 31, 2005, Krueger will have achieved the necessary vesting credit to be fully vested in the A.O. Smith Retirement Plan
4. Krueger shall be entitled to fifteen months of severance payments payable in 30 semi-monthly payments of $14,166.67 commencing August 15, 2005. All payments made under this paragraph are subject to applicable withholding taxes and are inclusive of any amounts that Krueger may be entitled to under the A. O. Smith Severance Pay Plan. In the event of Krueger's death, payments shall continue to his designated beneficiary or his estate, if no beneficiary designation has been filed.
5. A. O. Smith agrees to continue group health, dental and disability insurance coverages for Krueger and his eligible dependents through the earlier of the date his severance pay ceases or the date he and his dependents are enrolled in his new employer's health plan. Upon termination of the A. O. Smith provided group health and dental coverage, Krueger will then be eligible, at his sole expense, to continue health and dental coverage for an additional period of up to 18 months under the federal continuation law ("COBRA").
6. A. O. Smith shall make the 2005 annual premium payments due on Krueger's pre and post retirement split dollar life insurance policies. On June 30, 2006, the split dollar agreements shall terminate and Krueger shall have the option either (1) assigning all his interest in the policies to A. O. Smith or (2) repaying the premiums paid by A. O. Smith to obtain a release of A. O. Smith's collateral interest in the policies.

7. Krueger shall not be eligible to receive any company matching contribution for 2005 since he will not be employed by A. O. Smith on December 31, 2005. A. O. Smith will pay Krueger the amount of $72,000.00, less applicable withholding taxes, no later than July 31, 2005 to compensate him for the loss of certain profit sharing and retirement benefits. Krueger's Supplemental Profit Sharing Plan account balance as of December 31, 2005 will be paid to him in January, 2006 in a lump sum.

8. Under this agreement, Krueger's 2002, 2003 and 2004 stock option grants shall be treated as follows:

   A) The 2002 grant shall be automatically exercised on July 31, 2006 provided that the fair market value of the Company stock is greater than $26.88 per share on July 31, 2006.

   B) The 2003 grant shall be automatically exercised on July 31, 2007 provided that the fair market value of the Company stock is greater than $28.70 per share on July 31, 2007.

   C) The 2004 grant shall be automatically exercised per the following schedule provided the fair market value of the Company stock is greater than $24.64 per share on the exercise date:

      i) one third of the grant on October 12, 2005

      ii) one third of the grant on October 12, 2006

      iii) one third of the grant on October 12, 2007

   Any option that is not exercised because the fair market value of the Company stock on the scheduled exercise date is lower than the exercise price, shall expire.

9. Of Krueger's outstanding restricted stock awards, 6000 shares will become vested in October, 2005. All other restricted shares shall be forfeited on the date of Krueger's termination. Any dividends earned on restricted shares in 2005 shall be paid to Krueger in February, 2006.

10. Krueger shall not be entitled to any payout under the Performance Cash Plan awarded to him in October, 2004.

11. Krueger shall be eligible to receive a pro-rated bonus under the A. O. Smith Combined Executive Incentive Compensation Plan for 2005 based on his participation in the plan through his date of termination.

12. Krueger shall be eligible for the use of his current company leased car until he has secured other full-time employment but no later than June 30, 2006. At such time, he shall have the option of returning the car or purchasing the car per the normal lease agreement. During his use of the company leased car, A. O. Smith shall maintain all existing collision, comprehensive and liability insurance on the car, and Krueger shall be responsible for all operating and maintenance costs.

13. The payment by A. O. Smith of fees and dues for club membership Krueger currently is provided will be continued through December 31, 2005.

14. Krueger will be eligible for Deloitte & Touche financial counseling service through December, 2005, including income tax preparation for 2005.

15. Executive outplacement services will be provided at the Company's expense to assist Krueger in obtaining other employment.

16. A. O. Smith agrees to continue its practice of reimbursing Krueger for the income taxes due on the imputed or reportable income related to A. O. Smith's payment of club fees and dues, tax preparation and counseling fees and lease payments on the company car.

17. In consideration for this Separation Agreement, Krueger agrees as follows:

    A) From the date of execution of this Agreement until June 30, 2007, he will not directly or indirectly engage as an employee, consultant, or representative in any activity for any business or person which is engaged in the manufacture, sale or distribution of electric motors or water heaters unless he obtains the prior written consent of the Chief Executive Officer of A. O. Smith Corporation; and

    B) He will not engage in any act or make any statement, which criticizes, maligns, denigrates or disparages A. O. Smith or its affiliates or their directors, officers or employees; and

    C) He agrees that he will not disclose to any person, firm or corporation any secret, confidential or proprietary information of A. O. Smith 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 A. O. Smith's costs, profits, markets, sales, pricing, product lines, policies, operational methods, suppliers, customers and strategic plans, and

    D) He agrees to release and forever discharge A. O. Smith Corporation and any of their affiliated companies, their officers, directors and employees of and from any and all claims, demands, rights, liabilities and causes of action of whatsoever kind or nature, arising out of or in connection with his employment. This release specifically encompasses all claims of employment discrimination based on race, color, religion, sex and national origin under Title VII of the Civil rights Act of 1964 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), all claims under the Employee Retirement Income Security Act (ERISA), all claims of employment discrimination under the Americans with Disabilities Act (ADA), all claims based on any express or implied employment contract as well as claims under any applicable state or local law concerning employment. This release shall not apply to: (i) any claims for benefits under applicable unemployment compensation law; (ii) any claim for vested benefits under A. O. Smith's pension and savings plans; (iii) any rights that Krueger may have to indemnification to the extent provided in A. O. Smith's articles of incorporation, bylaws, or indemnification agreements to which Krueger is a party; (iv) any rights that Krueger may have under any directors or officers insurance policies; and (v) the rights established under this Agreement. This release shall also not apply to any right or claims under the Age Discrimination and Employment Act of 1967 (ADEA) which arise after the date this Agreement is executed; and

E) In the event that Krueger violates any of the provisions of A thru D of this paragraph, in addition to any other legal remedies that it may have, A. O. Smith shall have the right to cease making the payments in Paragraph 4 and cease providing the benefit coverages outlined in Paragraph 5 of this Agreement.

18. Krueger agrees that he will not disclose the terms, amounts and facts of this Agreement to anyone other than to his financial or tax advisor/counselor, attorney or immediate family members until the terms of this Agreement are made public through a government filing.

19. Krueger shall have the right to revoke this Agreement within seven (7) days after he executes it, by providing written notice of such revocation to A. O. Smith. This Agreement shall not be effective or enforceable until the seven-day revocation period has expired.

20. Krueger acknowledges that he has been advised by A. O. Smith to seek the advice of an attorney regarding this Agreement and that he has been given 21 days to decide whether to agree to its terms.

21. The illegality or unenforceability of any legal and enforceable provision of this Agreement shall not effect the validity and enforceability of any legal and enforceable provision of this Agreement..

22. This Agreement shall supersede and replace all prior written and oral agreements between the parties regarding the subject matter of this Agreement.

23. This Agreement will be binding upon any successors and assigns of A. O. Smith.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year indicated below.

A. O. SMITH CORPORATION

Dated: July 18, 2005

By: /s/ Mark A. Petrarca

Mark A. Petrarca
Vice President
Human Resources & Public Affairs

Dated: July 18, 2005

By: /s/ Kenneth W. Krueger

Kenneth W. Krueger

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Robert J. O'Toole, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A. O. Smith Corporation (the "company");
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 company as of, and for, the periods presented in this report;
4. The company'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 company and we 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 company, 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 company'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 company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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 company's internal control over financial reporting.

Date: August 2, 2005

/s/ Robert J. O'Toole

Robert J. O'Toole
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, John J. Kita, Vice President, Treasurer and Controller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A. O. Smith Corporation (the “company”);
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 company as of, and for, the periods presented in this report;
4. The company’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 company and we 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 company, 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 company’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 company’s internal control over financial reporting that occurred during the company’s most recent fiscal quarter (the company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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 company's internal control over financial reporting.

Date: August 2, 2005

/s/ John J. Kita

John J. Kita
Vice President, Treasurer and Controller

Exhibit 32

Written Statement of the Chief Executive Officer and the
Principal 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 on Form 10-Q of A. O. Smith Corporation for the quarter ended June 30, 2005 (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 2, 2005

/s/ Robert J. O’Toole

Robert J. O’Toole
Chairman and Chief Executive Officer

/s/ John J. Kita

John J. Kita
Vice President, Treasurer and Controller