

SMITH A O CORP
Form DEF 14A
March 06, 2006
Table of Contents

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO.)

Filed by the registrant Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for the Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
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A. O. Smith Corporation

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(Name of Registrant as Specified in Its Charter)

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1) Title of each class of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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Table of Contents

P.O. BOX 245009

MILWAUKEE, WI 53224-9509

NOTICE AND PROXY STATEMENT

NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS

PLEASE TAKE NOTICE that the annual meeting of the stockholders of A. O. SMITH CORPORATION (Company) will be held on Monday, April 10, 2006, at 10:30 A.M., Eastern Time, at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware, for the following purposes:

- (1) To elect six directors chosen by the holders of Class A Common Stock.
- (2) To elect two directors chosen by the holders of Common Stock.
- (3) To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for 2006.
- (4) To transact such other business and act upon such other matters which may properly come before the meeting or any adjournments thereof.

Only holders of record of the Class A Common Stock and the Common Stock of the Company at the close of business on February 22, 2006, will be entitled to notice of and to vote at the meeting. The list of stockholders entitled to vote at the meeting will be available at our offices at 11270 West Park Place, Milwaukee, Wisconsin, as of March 27, 2006, for examination by stockholders for purposes related to the meeting.

YOU ARE INVITED TO ATTEND THE MEETING IN PERSON; HOWEVER, EVEN IF YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE TAKE A FEW MINUTES TO COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE. IF YOU ARE A SHAREHOLDER OF RECORD (YOUR SHARES ARE IN YOUR NAME), THEN YOU ALSO MAY VOTE YOUR SHARES VIA THE TELEPHONE BY ACCESSING THE TOLL-FREE NUMBER INDICATED ON YOUR PROXY CARD OR VIA THE INTERNET BY ACCESSING THE WEBSITE INDICATED ON YOUR PROXY CARD. IF YOU ATTEND THE MEETING, THEN YOU MAY REVOKE YOUR PROXY AND VOTE YOUR SHARES IN PERSON. STREET NAME HOLDERS MAY ALSO VOTE BY TELEPHONE OR THE INTERNET IF THEIR BANK OR BROKER MAKES THOSE METHODS AVAILABLE, IN WHICH CASE THE BANK OR BROKER WILL ENCLOSE THE INSTRUCTIONS WITH THE PROXY STATEMENT. STREET NAME HOLDERS WHO WISH TO VOTE AT THE MEETING WILL NOT BE PERMITTED TO VOTE IN PERSON AT THE MEETING UNLESS THEY FIRST OBTAIN A PROXY ISSUED IN THEIR NAME FROM THE BROKER, BANK OR OTHER NOMINEE.

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W. David Romoser

Secretary

March 6, 2006

Table of Contents

P.O. BOX 245009

MILWAUKEE, WI 53224-9509

PROXY STATEMENT

GENERAL INFORMATION

This proxy statement is furnished to stockholders of A. O. Smith Corporation (Company) in connection with the solicitation by its Board of Directors of proxies for use at the annual meeting of stockholders of the Company to be held on April 10, 2006, at 10:30 A.M., Eastern Time, at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware.

The record date for stockholders entitled to notice of and to vote at the meeting is the close of business on February 22, 2006 (the Record Date). As of the Record Date, the Company had issued 8,499,655 shares of Class A Common Stock, par value \$5 per share, 8,467,060 shares of which were outstanding and entitled to one (1) vote each for Class A Common Stock directors and other matters. As of the Record Date, the Company had issued 24,049,807 shares of Common Stock, par value \$1 per share, 22,031,682 shares of which were outstanding and entitled to one (1) vote each for Common Stock directors and one-tenth (1/10th) vote each for other matters.

The Notice of 2006 Annual Meeting of Stockholders, this proxy statement, form of proxy card and the Company s 2005 Annual Report are being mailed on or about March 6, 2006, to each stockholder of the Company at the holder s address of record.

Under the Company s Restated Certificate of Incorporation, as long as the number of outstanding shares of Common Stock is at least 10% of the aggregate number of outstanding shares of Class A Common Stock, the holders of the Class A Common Stock and holders of the Common Stock vote as separate classes in the election of directors. The holders of the Common Stock are entitled to elect, as a class, 25% of the entire Board of Directors of the Company, and the holders of Class A Common Stock are entitled to elect the remainder of the Board. Stockholders are entitled to one (1) vote per share in the election of directors for their class of stock.

A majority of the outstanding shares entitled to vote must be represented in person or by proxy at the meeting in order to constitute a quorum for purposes of holding the annual meeting. The voting by stockholders at the meeting is conducted by the inspectors of election. Abstentions and broker nonvotes, if any, are counted as present in determining whether the quorum requirement is met.

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Directors are elected by a plurality of the 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 that 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 (1) vote per share and the Common Stock entitled to one-tenth (1/10th) vote per share. Each such other matter is approved if a majority of the votes present or represented at the meeting are cast in favor of the matter. 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 entitled to vote on matters as to which the brokers withhold authority, a broker nonvote will have no effect on the vote.

Table of Contents

The enclosed proxy is solicited by and on behalf of the Board of Directors of the Company. A proxy may be revoked by the person giving it at any time before the exercise thereof by delivering written notice of revocation or a duly executed proxy bearing a later date to the Secretary of the Company or by attending the meeting and voting in person. All valid proxies not revoked will be voted unless marked to abstain. Where a choice is specified on a proxy, the shares represented by such proxy will be voted in accordance with the specification made. If no instruction is indicated, then the shares will be voted FOR proposals (1) through (3) set forth in the accompanying notice.

The cost of soliciting proxies, including preparing, assembling and mailing the notice of meeting, proxy statement, form of proxy and other soliciting materials, as well as the cost of forwarding such material to the beneficial owners of stock, will be paid by the Company, except for some costs associated with individual stockholders' use of the internet or telephone. In addition to solicitation by mail, directors, officers, regular employees of the Company and others may also, but without compensation other than their regular compensation, solicit proxies personally or by telephone or other means of electronic communication. The Company may reimburse brokers and others holding stock in their names or in the names of nominees for their reasonable out-of-pocket expenses in sending proxy material to principals and beneficial owners.

Pursuant to the rules of the Securities and Exchange Commission, services that deliver the Company's communications to stockholders that hold their stock through a bank, broker or other holder of record may deliver to multiple stockholders sharing the same address a single copy of the Company's 2005 Annual Report and this proxy statement. Upon written or oral request, the Company will promptly deliver a separate copy of the Company's 2005 Annual Report and/or this proxy statement to any stockholder at a shared address to which a single copy of each document was delivered. Stockholders may notify the Company of their requests by calling or writing Craig Watson, Director of Investor Relations, A. O. Smith Corporation, P.O. Box 245008, Milwaukee, Wisconsin 53224-9508; (414) 359-4009.

Table of Contents

TABLE OF CONTENTS

<u>PRINCIPAL STOCKHOLDERS</u>	4
<u>ELECTION OF DIRECTORS</u>	5
<u>GOVERNANCE OF THE COMPANY</u>	6
<u>The Board of Directors</u>	6
<u>Board Committees</u>	7
<u>Audit Committee</u>	7
<u>Personnel and Compensation Committee</u>	7
<u>Investment Policy Committee</u>	8
<u>Nominating and Governance Committee</u>	8
<u>Director Compensation</u>	9
<u>STOCK OWNERSHIP</u>	10
<u>Security Ownership of Directors and Management</u>	10
<u>Compliance with Section 16(a) of the Securities Exchange Act</u>	10
<u>EXECUTIVE COMPENSATION</u>	11
<u>Summary Compensation Table</u>	11
<u>Option Grants Table</u>	12
<u>Option Exercises and Year-End Values Table</u>	13
<u>Pension Plan Table</u>	13
<u>COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION</u>	14
<u>REPORT OF THE PERSONNEL AND COMPENSATION COMMITTEE</u>	14
<u>PERFORMANCE GRAPH</u>	17
<u>REPORT OF THE AUDIT COMMITTEE</u>	18
<u>APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	19
<u>REPORT OF THE NOMINATING AND GOVERNANCE COMMITTEE</u>	19
<u>OTHER BUSINESS</u>	20
<u>BOARD INFORMATION AND STOCKHOLDER COMMUNICATIONS</u>	20
<u>DATE FOR STOCKHOLDER PROPOSALS</u>	20

Table of Contents**PRINCIPAL STOCKHOLDERS**

The following table shows persons who may be deemed to be beneficial owners (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of more than 5% of any class of the Company's stock. Unless otherwise noted, the table reflects beneficial ownership as of December 31, 2005.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Class A Common Stock	Smith Investment Company* 11270 West Park Place Milwaukee, WI 53224 ⁽¹⁾	8,067,252	95.27%
Common Stock	Smith Investment Company 11270 West Park Place Milwaukee, WI 53224 ⁽¹⁾	1,559,076 ⁽²⁾	7.10% ⁽²⁾
Common Stock	Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11 th Floor Santa Monica, CA 90401	1,652,478 ⁽³⁾	7.53%
Common Stock	Franklin Resources, Inc. One Franklin Parkway San Mateo, CA 94403-1906	1,194,816 ⁽⁴⁾	5.44%
Common Stock	T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	2,280,810 ⁽⁵⁾	10.39%

* Throughout the balance of the proxy statement, Smith Investment Company is referred to as SICO.

⁽¹⁾ Arthur O. Smith and Bruce M. Smith are co-filers with SICO on the Schedule 13G that SICO has filed with the Securities and Exchange Commission.

⁽²⁾ Pursuant to the Company's Restated Certificate of Incorporation, Class A Common Stock is convertible at any time at the option of the holder into Common Stock on a share-for-share basis. For purposes of computing beneficial ownership of SICO's Common Stock, assuming that all Class A Common Stock held by SICO was converted into Common Stock, SICO's beneficial ownership of the Common

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Stock is 9,626,328 shares, which represents 32.1% of the class of Common Stock.

- (3) Dimensional Fund Advisors Inc. (Dimensional), an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the Funds. In its role as investment advisor or manager, Dimensional possesses sole voting power and sole dispositive power with respect to 1,652,478 shares. For purposes of the reporting requirements of the Securities and Exchange Act of 1934, Dimensional may be deemed to be the beneficial owner of the shares held by the Funds. However, Dimensional disclaims beneficial ownership of such securities.
- (4) These securities are beneficially owned by one or more open or closed-end investment companies or other managed accounts that are investment advisory clients of investment advisers that are direct and indirect subsidiaries of Franklin Resources, Inc. (FRI). Franklin Advisory Services, LLC, an advisory subsidiary of FRI holds 1,194,100 shares with respect to which it has sole voting power and 1,194,700 shares with respect to which it has sole dispositive power. Franklin Advisers, Inc., an advisory subsidiary of FRI, holds 116 shares with respect to which it has sole voting and sole dispositive power. FRI and its subsidiaries disclaim beneficial ownership of such securities.
- (5) These securities are owned by various individual and institutional investors, including T. Rowe Price Small-Cap Stock Fund, Inc. (which owns 1,745,700 shares, representing 7.95% of the Common Stock outstanding), which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

Information on beneficial ownership is based upon Schedules 13D or 13G filed with the Securities and Exchange Commission and any additional information that any beneficial owners may have provided to the Company.

Table of Contents

ELECTION OF DIRECTORS

Eight directors are to be elected to serve until the next succeeding annual meeting of stockholders and thereafter until their respective successors shall be duly elected and qualified. Owners of Class A Common Stock are entitled to elect six directors and owners of Common Stock are entitled to elect the two remaining directors.

It is intended that proxies hereby solicited will be voted for the election of the nominees named below. Proxies will not be voted for a greater number of persons than the eight nominees named below. All nominees have consented to being named in the proxy statement and to serve if elected. If any nominee for election as a director shall become unavailable to serve as a director, then proxies will be voted for such substitute nominee as the Board of Directors may nominate.

The following information has been furnished to the Company by the respective nominees for director. Each nominee has been principally engaged in the employment indicated for the last five years unless otherwise stated.

NOMINEES CLASS A COMMON STOCK

RONALD D. BROWN Chairman, President and Chief Executive Officer, Milacron Inc.

Mr. Brown, 52, has been a director of the Company since 2001. He is the Chairperson of the Nominating and Governance Committee and a member of the Personnel and Compensation Committee of the Board. Mr. Brown became chairman and chief executive officer of Milacron Inc. in 2001. He previously was president and chief operating officer from 1999 through 2001, and has been on the Board of Directors of Milacron Inc. since 1999. He joined Milacron Inc. in 1980. Milacron is a global leader in plastic processing and metalworking fluid technologies.

PAUL W. JONES Chairman of the Board and Chief Executive Officer.

Mr. Jones, 57, has been a director of the Company since 2004. He was elected chairman of the board, president and chief executive officer effective December 31, 2005. He was president and chief operating officer from January, 2004. Prior to joining A. O. Smith, he was chairman and chief executive officer of U.S. Can Company, Inc. from 1998 to 2002. He previously was president and chief executive officer of Greenfield Industries, Inc. from 1993 to 1998 and president from 1989 to 1992. Mr. Jones is a director of Federal Signal Corporation.

ROBERT J. O TOOLE Retired Chairman of the Board and Chief Executive Officer.

Mr. O Toole, 65, has been a director of the Company since 1986. He is a member of the Investment Policy Committee of the Board. He was chairman of the board from 1992 through 2005 and was chief executive officer from 1989 through 2005. He is a director of Briggs & Stratton Corporation, FM Global and Marshall & Ilsley Corporation.

BRUCE M. SMITH Chairman of the Board, President and Chief Executive Officer, Smith Investment Company.

Mr. Smith, 57, has been a director of the Company since 1995. He is the Chairperson of the Investment Policy Committee and a member of the Personnel and Compensation Committee of the Board. He was elected chairman and chief executive officer of SICO in 1999, and was elected president of SICO in 1993. SICO is a diversified company which, through its wholly-owned subsidiaries, is involved in multicolor printing and related services and commercial warehousing, trucking and packaging. Mr. Smith is a director of SICO. Mr. Smith is a first cousin of Mr. Mark D. Smith, also a director of the Company. Mr. Roger S. Smith, brother of director Bruce M. Smith, is a long-standing employee of the Company employed in a non-executive capacity as Manager of Corporate Advertising and Public Affairs.

Table of Contents

MARK D. SMITH Business Manager, Strattec Security Corporation.

Mr. Smith, 44, has been a director of the Company since 2001. He is a member of the Audit Committee of the Board. He has served as a product business manager for Strattec Security Corporation since 1997. Strattec Security Corporation designs, develops, manufactures and markets mechanical locks, electro-mechanical locks and related security products for major automotive manufacturers. Mr. Smith is a first cousin of Mr. Bruce M. Smith, also a director of the Company. Mr. Arthur O. Smith, III, brother of director Mark D. Smith, is a long-standing employee of the Company employed in a non-executive capacity as Manager of Business Analysis at A. O. Smith Electrical Products Company.

GENE C. WULF Senior Vice President and Chief Financial Officer, Bemis Company, Inc.

Mr. Wulf, 55, has been a director of the Company since 2003. He is the Chairperson of the Audit Committee of the Board. Mr. Wulf was elected senior vice president and chief financial officer of Bemis Company, Inc. in 2005. He previously was vice president, chief financial officer and treasurer from 2002 through 2005 and vice president and controller from 1998 through 2002. Bemis Company, Inc. is one of the largest flexible packaging companies in the Americas and a major manufacturer of pressure sensitive materials used in labels, decorating and signage.

NOMINEES COMMON STOCK

WILLIAM F. BUEHLER Retired Vice Chairman of the Board of Directors, Xerox Corporation.

Mr. Buehler, 66, has been a director of the Company since 1998. He is the Chairperson of the Personnel and Compensation Committee and a member of the Nominating and Governance Committee of the Board. Mr. Buehler was vice chairman of the board of directors and president Industry Solutions Operations of Xerox Corporation from 1999 through 2000. He joined Xerox Corporation in 1991 as executive vice president and chief staff officer. Xerox Corporation is a leader in the global document market, providing document solutions that enhance business productivity. Prior to joining Xerox, he spent 27 years with AT&T Corporation. Mr. Buehler is a director of Quest Diagnostics.

IDELLE K. WOLF President, Barnes Distribution.

Ms. Wolf, 53, has been a director of the Company since October, 2005. She is a member of the Audit Committee of the Board. Ms. Wolf was appointed president of Barnes Distribution in 2006 and remains vice president of Barnes Group Inc. She previously was president of Barnes Distribution North America from 2004 through 2005. She joined Barnes Group Inc. as vice president and chief operating officer of Barnes Distribution in 2000. Barnes Distribution North America is a leading distributor of maintenance, repair, operating and production supplies with distribution centers in North America, Europe and Asia.

GOVERNANCE OF THE COMPANY

The Board of Directors

The business of the Company is managed under the direction of the Board of Directors, who are elected by the stockholders. Directors meet their responsibilities by participating in meetings of the Board of Directors and Board committees on which they sit, through communication with our Chairman and Chief Executive Officer and other officers and employees, by consulting with the Company's independent registered public accounting firm and other third parties, by reviewing materials provided to them, and by visiting our offices and plants. During 2005, the Board held five regular meetings and two special meetings. The Committees of the Board of Directors held a total of 25 meetings. All directors attended at least 75% of the scheduled Board and Committee meetings.

Table of Contents

The Company is committed to a Board in which a majority of its members consist of independent directors, as defined under the New York Stock Exchange (NYSE) Rules. The Board has reviewed the independence of its members, applying the NYSE Rules and considering any other commercial, legal, accounting and familial relationships between the directors and the Company. The Board has determined that Messrs. Brown, Buehler, Wulf and Mark D. Smith and Ms. Wolf meet the NYSE independence requirements. Messrs. O Toole and Jones are considered management directors by virtue of their current and recent positions as executive officers of the Company. With respect to Mr. Bruce M. Smith, the Board determined that he is a non-management director but not independent due to his executive officer position with SICO, the Company's largest stockholder with a controlling interest in the Company. The Board has elected to exercise the Controlled Company exemption under the NYSE Rules with respect to Mr. Bruce Smith's participation on the Personnel and Compensation Committee. In this regard, the Board determined that Mr. Bruce Smith uniquely represents the best interests of stockholders by virtue of his position with SICO and should continue to serve on this Committee. The Board has not elected to exercise this exemption in any other respect.

The Board recognizes that the NYSE Rules require financial literacy of Audit Committee members only. Notwithstanding that, as a best practice, the Board has reviewed the qualifications and experience of its members and determined that each director is financially literate within the meaning of the NYSE Rules.

The non-management directors of the Board met in executive session without management present five times in 2005. The presiding director at these meetings was the Chairperson of the Nominating and Governance Committee. The presiding director during the period April, 2006 to April, 2007 will be the Chairperson of the Audit Committee.

Stockholders wishing to communicate with the presiding director may send correspondence to the Presiding Director, c/o W. David Romoser, Corporate Secretary, A. O. Smith Corporation, 11270 West Park Place, P.O. Box 245009, Milwaukee, Wisconsin 53224-9509. Further, stockholders wishing to communicate with individual directors may follow the same procedure. All correspondence should be in a sealed envelope marked Confidential and will be forwarded unopened to the presiding director or other director, as appropriate.

Board Committees

The Board of Directors has delegated some of its authority to committees of the Board. There are four standing committees: the Audit Committee, the Personnel and Compensation Committee, the Investment Policy Committee, and the Nominating and Governance Committee.

Audit Committee. The Audit Committee consists of three members who meet the independence and financial literacy requirements of the NYSE and the Securities and Exchange Commission (SEC). The Audit Committee's duties include appointing the firm that will act as the independent registered public accounting firm for the Company. The Audit Committee's duties and responsibilities are set forth in its Charter, which has been approved by the Board of Directors. It is available on the Company's website. The Board of Directors has determined that Ms. Wolf and Mr. Wulf qualify as audit committee financial experts as defined by the SEC. The Audit Committee met four times during 2005, and additionally held eight telephonic meetings. The Report of the Audit Committee is included as part of this proxy statement.

Personnel and Compensation Committee. The Personnel and Compensation Committee is responsible for establishing and administering the Company's compensation and benefit plans for officers, executives and management employees, including the determination of eligibility for participation in such plans. It determines the compensation to be paid to officers and certain other selected executives, and evaluates the performance of the chairman and chief executive officer in light of established goals and objectives. The Personnel and Compensation Committee's duties and responsibilities are set forth in its Charter, which has been approved by the Board and is available on the Company's website. The Committee consists of three non-management directors. The Committee held five meetings during 2005. The Personnel and

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Compensation Committee Report is included as part of this proxy statement.

Table of Contents

Investment Policy Committee. The Investment Policy Committee is responsible for investment policy and certain other matters for all Company retirement plans. The Committee consists of two members. The Investment Policy Committee held four meetings during 2005.

Nominating and Governance Committee. The Nominating and Governance Committee assists the Board in identifying qualified candidates for election as Board members, and establishes and periodically reviews criteria for selection of directors. Further, the Committee provides direction to the Board as to the independence, financial literacy and financial expertise of directors, and the composition of the Board and its committees. As part of its responsibilities, the Committee also oversees the process to assess Board and committee effectiveness, implements corporate governance guidelines and advises the Board on corporate governance matters. The responsibilities and duties of the Nominating and Governance Committee are set forth in its Charter, which has been approved by the Board and is available on the Company's website. The Committee consists of two members, both of whom are independent under the NYSE rules. The Nominating and Governance Committee met three times during 2005 and additionally held one telephonic meeting. The Report of the Nominating and Governance Committee is included as part of this proxy statement.

The Nominating and Governance Committee will consider candidates recommended by stockholders, directors, officers, third-party search firms and other sources for nomination as a director. The Committee considers the needs of the Board and evaluates each director candidate in light of, among other things, the candidate's qualifications. All candidates' qualifications are identified in the Corporate Governance Guidelines and the Criteria for Selecting Board of Director Candidates, both of which can be found on the Company's website by clicking on Corporate Governance and then on the specific document. To summarize, all candidates should be independent and possess substantial and significant experience which would be of value to the Company in the performance of the duties of a director. Recommended candidates must be of the highest character and integrity, free of any conflicts of interest, have an inquiring mind and vision, and possess the ability to work collaboratively with others. Each candidate must have the time available to devote to Board activities and be of an age that, if elected, the candidate could serve on the Board for at least five years before reaching the mandatory retirement age. Finally, the Company believes it appropriate for certain key members of the Company's management to participate as members of the Board, while recognizing that a majority of independent directors must be maintained at all times. All candidates will be reviewed in the same manner, regardless of the source of the recommendation.

A stockholder recommendation of a director candidate must be received no later than the date for submission of stockholder proposals. Please see the section of this proxy entitled Date for Stockholder Proposals. The recommendation letter should be sent by mail to the Chairperson, Nominating and Governance Committee, c/o W. David Romoser, Corporate Secretary, A. O. Smith Corporation, 11270 West Park Place, P.O. Box 245009, Milwaukee, Wisconsin 53224-9509.

The recommendation letter must, at a minimum, provide the stockholder's name; address; the number and class of shares owned; the candidate's biographical information, including name, residential and business address, telephone number, age, education, accomplishments, employment history (including positions held and current position), and current and former directorships; and the stockholder's opinion as to whether the stockholder recommended candidate meets the definitions of independent and financially literate under the NYSE rules. In addition, the recommendation letter must provide the information that would be required to be disclosed in the solicitation of proxies for election of directors under federal securities laws. The stockholder must include the candidate's statement that he/she meets these requirements and those identified on the Company's website; is willing to promptly complete the Questionnaire required of all officers, directors and candidates for nomination to the Board; will provide such other information as the Committee may reasonably request; and consents to serve on the Board if elected.

Table of Contents

Director Compensation

With respect to fiscal 2005, directors received an annual retainer, paid quarterly, in the amount of \$30,000 and the award of shares of Common Stock with a market value of \$20,000 on the date of its award. Directors also received \$1,500 for attendance at each Board meeting, plus expenses, and received \$500 for each telephonic Board and Committee meeting. Each Audit, Personnel and Compensation, and Nominating and Governance Committee member received \$3,000, and the chairperson of each received \$4,000, annually; Committee members also received \$1,500 per meeting, plus expenses. Each Investment Policy Committee member received \$3,000, and the chairperson received \$4,000, annually; Committee members also received \$3,000 per meeting, plus expenses. Directors who are employees of the Company are not compensated for service as directors or Committee members or for attendance at Board or Committee meetings.

The Board requires that every new director participate in a detailed orientation at the Company's World Headquarters. This encompasses a review of business and financial operations, meetings with business executives and others, and an overview of the Company's corporate governance policies and procedures. New directors are paid \$1,500 to compensate them for their time devoted to orientation matters.

Certain directors have elected to defer payment of their fees and receipt of Common Stock shares under the Corporate Directors' Deferred Compensation Plan (the Directors' Plan). The Directors' Plan allows directors to defer all or a portion (not less than 50%) of their fees until a later date, but not later than the year in which age 71 is attained. Payments can be made in a lump sum or in not more than ten annual installments.

Table of Contents**STOCK OWNERSHIP****Security Ownership of Directors and Management**

The following table shows, as of December 31, 2005, the Class A Common Stock and Common Stock of the Company and Common Stock options exercisable on or before March 1, 2006, beneficially owned by each director, each nominee for director, each named executive officer in the Summary Compensation Table and by all directors and executive officers as a group.

Name	Common Stock** ⁽¹⁾	Phantom Stock	Options Exercisable	Percent
		Units	Within 60 Days	of Class
Ronald D. Brown	3,510	0	0	*
William F. Buehler	5,007	0	0	*
Paul W. Jones	45,800 ⁽²⁾	33,000	49,300	*
Christopher L. Mapes	12,000	8,100	30,900	*
Ronald E. Massa	27,606 ⁽²⁾	8,100	206,966	1.1%
Robert J. O Toole	345,048 ⁽²⁾⁽³⁾⁽⁴⁾	33,000	712,450	5.0%
Ajita G. Rajendra	15,000	8,100	0	*
W. David Romoser	55,994 ⁽²⁾	5,700	143,850	*
Bruce M. Smith ⁽⁵⁾	2,649	1,940	0	*
Mark D. Smith ⁽⁵⁾	2,845	0	0	*
Idelle K. Wolf	343	0	0	*
Gene C. Wulf	1,788 ⁽⁶⁾	0	0	*
All 19 Directors, Nominees and Executive Officers as a Group ⁽⁵⁾	593,135 ⁽²⁾	120,840	1,560,482	10.4%

** None of the directors, nominees and executive officers have beneficial ownership of Class A Common Stock (see footnote 5 below).

* Represents less than one percent.

⁽¹⁾ Except as otherwise noted, all securities are held with sole voting and sole dispositive power.

⁽²⁾ Included in the beneficially owned shares are restricted stock awards: Mr. O Toole 44,700; Mr. Jones 36,467; Mr. Rajendra 15,000; Mr. Massa 10,500; Mr. Romoser 7,700; Mr. Mapes 8,000; and all directors and executive officers as a group 151,712.

⁽³⁾ Included in this total are 35,500 shares that have been deferred.

⁽⁴⁾ This total includes 5,000 shares held in a Foundation in which Mr. O Toole has voting and dispositive power.

⁽⁵⁾ Excludes shares beneficially owned by SICO.

⁽⁶⁾ Not included in this total are 50 shares held by Mr. Wulf's son. Mr. Wulf disclaims beneficial ownership of these securities.

**Compliance with Section 16(a) of the
Securities Exchange Act**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the New York Stock Exchange. Executive officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) Forms 3, 4 and 5 which they file.

Based solely on its review of the copies of such forms received by the Company and written representations from certain reporting persons during fiscal year 2005, the Company believes that all filing requirements applicable to its executive officers, directors and greater than ten percent beneficial owners were met.

Table of Contents**EXECUTIVE COMPENSATION**

The Summary Compensation Table reflects all compensation awarded to, earned by or paid to each of the Company's most highly compensated executive officers, including the chief executive officer, during fiscal year 2005, as well as all compensation awarded, earned or paid in the two previous fiscal years.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			
		Salary (\$) ⁽¹⁾	Bonus (\$)	Other Annual Compensation (\$) ⁽²⁾	Awards			All Other Compensation (\$) ⁽⁶⁾
					Restricted Awards (\$) ⁽³⁾	Phantom Stock Units (\$) ⁽⁴⁾	Options Granted (#) ⁽⁵⁾	
Robert J. O Toole Retired Chairman and Chief Executive Officer	2005	867,000	749,000	106,747	0	950,400	40,500	98,199
	2004	836,000	312,500	69,037	924,960	N/A	48,300	48,013
	2003	804,000	650,000	69,956	617,700	N/A	101,200	38,588
Paul W. Jones Chairman and Chief Executive Officer	2005	621,000	445,000	49,606	0	950,400	40,500	59,958
	2004	600,000	186,900	22,992	1,368,330	N/A	66,300	128,424
	2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ajita G. Rajendra Senior Vice President & President of A. O. Smith Water Products Company, a division of the Company	2005	302,500	230,000	22,547	418,200	233,280	36,900	86,538
	2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ronald E. Massa Senior Vice President	2005	326,583	170,000	45,076	0	233,280	10,000	116,824
	2004	313,518	0	21,572	221,400	N/A	11,600	27,689
	2003	301,000	70,000	21,466	130,500	N/A	25,800	30,923
W. David Romoser Vice President, General Counsel and Secretary	2005	299,000	145,000	31,442	0	158,916	7,000	22,042
	2004	288,000	61,000	20,867	159,900	N/A	8,400	8,244
	2003	277,000	126,000	22,354	104,400	N/A	17,900	12,534
Christopher L. Mapes Senior Vice President & President of A. O. Smith Electrical Products Company, a division of the Company	2005	333,333	89,000	38,592				
	2004	N/A	N/A	N/A				
	2003	N/A	N/A	N/A				