

SMITH A O CORP
Form DEF 14A
March 07, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

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

Soliciting Material Pursuant to §240.14a-12

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A. O. Smith Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

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4) Date Filed:

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P.O. BOX 245009

MILWAUKEE, WI 53224-9509

NOTICE AND PROXY STATEMENT

NOTICE OF 2007 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 9, 2007, at 1:00 P.M., Central Daylight Saving Time, at 500 Tennessee Waltz Parkway, Ashland City, Tennessee, for the following purposes:

- (1) To elect six directors chosen by the holders of Class A Common Stock.
- (2) To elect three directors chosen by the holders of Common Stock.
- (3) To approve the adoption of the A. O. Smith Combined Incentive Compensation Plan and reservation of 1,250,000 shares of Common Stock under the Plan.
- (4) To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for 2007.
- (5) 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 28, 2007, 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 26, 2007, for examination by stockholders for purposes related to the meeting.

YOU ARE INVITED TO ATTEND THE MEETING IN PERSON. IF YOU PLAN TO ATTEND, PLEASE INDICATE ON THE ENCLOSED PROXY. 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, 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.

W. David Romoser

Secretary

March 7, 2007

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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 9, 2007, at 1:00 P.M., Central Daylight Saving Time, at 500 Tennessee Waltz Parkway, Ashland City, Tennessee.

The record date for stockholders entitled to notice of and to vote at the meeting is the close of business on February 28, 2007 (the Record Date). As of the Record Date, the Company had issued 8,304,226 shares of Class A Common Stock, par value \$5 per share, 8,271,631 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 24,245,236 shares of Common Stock, par value \$1 per share, 22,454,457 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 2007 Annual Meeting of Stockholders, this proxy statement, form of proxy card and the Company s 2006 Annual Report are being mailed on or about March 7, 2007, 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 nonvoter will have no effect on the vote.

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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 specifications made. If no instruction is indicated, then the shares will be voted FOR proposals (1) through (4) 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 (SEC), 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 2006 Annual Report and this proxy statement. Upon written or oral request, the Company will promptly deliver a separate copy of the Company's 2006 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, Vice President, Investor Relations, A. O. Smith Corporation, P.O. Box 245008, Milwaukee, Wisconsin 53224-9508; (414) 359-4009.

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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, 2006.

<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	97.51%
Common Stock	T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	2,230,910 ⁽²⁾	9.95%
Common Stock	Smith Investment Company 11270 West Park Place Milwaukee, WI 53224 ⁽¹⁾	1,559,076 ⁽³⁾	6.96%
Common Stock	Franklin Resources, Inc. One Franklin Parkway San Mateo, CA 94403-1906	1,221,916 ⁽⁴⁾	5.45%
Common Stock	The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	1,217,424 ⁽⁵⁾	5.43%
Common Stock	Goldman Sachs Asset Management, L.P. 32 Old Slip New York, NY 10005	1,175,489 ⁽⁶⁾	5.25%
Common Stock	Dimensional Fund Advisors Inc. 1299 Ocean Avenue Santa Monica, CA 90401	1,157,428 ⁽⁷⁾	5.16%

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

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- (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) 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 7.79% 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.
- (3) 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 Stock is 9,626,328 shares, which represents 31.6% of the class of Common Stock.
- (4) These securities are beneficially owned by one or more open- or closed-end investment companies or other managed accounts that are investment management clients of investment managers that are direct and indirect subsidiaries of Franklin Resources, Inc. (FRI). Franklin Advisory Services, LLC, an investment management subsidiary of FRI, holds 1,215,300 shares with respect to which it has sole voting power and 1,221,800 shares with respect to which it has sole dispositive power. Franklin Advisers, Inc., an investment management 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) The Vanguard Group, Inc. has sole voting power with respect to 22,904 shares and sole dispositive power with respect to 1,217,424 shares.
- (6) Goldman Sachs Asset Management, L.P. has sole voting and sole dispositive power with respect to 1,175,489 shares.

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- (7) 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 1,157,428 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.

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.

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ELECTION OF DIRECTORS

Nine 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 three 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 nine 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, 53, 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. He joined Milacron Inc. in 1980. Milacron is a leading global supplier of plastic-processing technologies and industrial fluids. Mr. Brown is a director of Milacron Inc.

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

Mr. Buehler, 67, 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 develops, manufactures and markets document processing systems and related supplies and provides consulting and outsourcing document management services. Prior to joining Xerox, he spent 27 years with AT&T Corporation. Mr. Buehler is a director of Quest Diagnostics.

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

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Mr. Jones, 58, has been a director of the Company since 2004. He is a member of the Investment Policy Committee of the Board. 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 through December, 2005. 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 Bucyrus International, Inc. and Federal Signal Corporation.

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

Mr. Smith, 58, 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.

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MARK D. SMITH Business Manager, Strattec Security Corporation.

Mr. Smith, 45, 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, 56, 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 was vice president and controller from 1998 through 2002. Bemis Company, Inc. is the largest flexible packaging company in the Americas and a major manufacturer of pressure sensitive materials used in labels, decorating and signage. Mr. Wulf is a director of Bemis Company, Inc.

NOMINEES COMMON STOCK

WILLIAM P. GREUBEL Executive Director and Chairman, Wabash National Corporation.

Mr. Greubel, 55, has been a director of the Company since October, 2006. He is a member of the Nominating and Governance Committee and the Personnel and Compensation Committee. Mr. Greubel has been executive director and chairman of Wabash National Corporation since 2007. Mr. Greubel was chairman and chief executive officer of Wabash National Corporation in 2006. He joined the company as president and chief executive officer in 2002. Mr. Greubel previously was chief executive officer of Accuride Corporation from 1998 until 2002 and president from 1994 until 1998. Wabash National is one of the leading manufacturers of semi truck trailers in North America, specializing in the design and production of dry freight vans, flatbed trailers, drop deck trailers, and intermodal equipment.

ROBERT J. O TOOLE Retired Chairman of the Board and Chief Executive Officer, A. O. Smith Corporation.

Mr. O Toole, 66, 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.

IDELLE K. WOLF President, Barnes Distribution.

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Ms. Wolf, 54, 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 as chief operating officer of Barnes Distribution in 2000. Barnes Distribution is an industry leader in the distribution of maintenance, repair, operating and production supplies.

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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 2006, the Board held five regular meetings and two special meetings. The Committees of the Board of Directors held a total of 29 meetings. All directors attended at least 75% of the scheduled Board and Committee meetings.

The non-management directors of the Board met in executive session without management present five times in 2006. The presiding director during the period April, 2006 to April, 2007 has been the Chairperson of the Audit Committee, and for the period April, 2007 to April, 2008 will be the Chairperson of the Personnel and Compensation Committee.

Director Independence and Financial Literacy. A single investor, SICO, currently controls more than 50% of the voting power, and therefore, we are a controlled company under the New York Stock Exchange Rules (NYSE Rules). In this regard, as of December 31, 2006, SICO owned 97.51% of Class A Common Stock and 6.96% of Common Stock and, due to the differing voting rights of each class of stock, to a large extent SICO is in a position to control the outcome of matters requiring a stockholder vote. As a controlled company, under NYSE Rules A. O. Smith may elect to not have a majority of independent directors, nor independent compensation or governance committees.

Notwithstanding its status as a controlled company, the Company is committed to a Board in which a majority of its members consist of independent directors. As described in the Corporate Governance Guidelines available on the Company's website, www.aosmith.com, we apply the NYSE Rules to determine director independence. The Nominating and Governance Committee annually evaluates the independence of each director and makes recommendations to the Board. As part of this process, the Committee reviewed the detailed Directors' and Officers' Questionnaires completed annually by each director, which require disclosure of any related party transaction. No related party transactions, as defined by SEC Rules, were reported. In making its recommendations, the Committee also applied the NYSE Rules and evaluated any other legal, accounting and family relationships between directors and the Company. In particular, even though it is not a reportable related party transaction under SEC Rules, the Committee considered that the brothers of Bruce M. Smith and Mark D. Smith are long-standing employees of the Company employed in non-executive capacities. The Committee determined that their employment is immaterial and does not affect the independence of either director.

The Board has determined that Messrs. Brown, Buehler, Greubel, Wulf and Mark D. Smith and Ms. Wolf meet the NYSE independence requirements. Messrs. Jones and O Toole 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.

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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.

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Communications with the Board. Any party 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, those 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 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 and 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 eleven times during 2006, with seven of those meetings being telephonic. 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 (CEO) in light of established goals and objectives. As it deems appropriate, the Committee may retain independent consultants to provide recommendations as to executive compensation, and did so in 2006, as discussed in the Compensation Discussion and Analysis. The Committee also directs the Senior Vice President Human Resources and Public Affairs to prepare computations for its consideration, and considers recommendations of the CEO as to compensation of executives other than the CEO. The Committee may, but has not delegated its authority to subcommittees. In 2007, the Committee revised its Charter and, prospectively, will make recommendations regarding CEO compensation for the Board's final determination. 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 four directors, three of whom are independent and the fourth is a non-management director. The Committee held seven meetings during 2006, with two of the meetings being telephonic. The Personnel and Compensation Committee Report is included as part of this proxy statement.

Investment Policy Committee. The Investment Policy Committee is responsible for investment policy and certain other matters for all qualified Company retirement plans. The responsibilities and duties of the Investment Policy 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 three members. The Investment Policy Committee held six meetings during 2006.

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 is responsible for reviewing and making recommendations to the Board as to director compensation. As described in the discussion following the Director Compensation Table of this Proxy, in 2006 the Committee retained an independent consultant, Towers Perrin, to review its director compensation

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program and to conduct a benchmarking survey. In July, 2006, the Board adopted the Committee's recommendations based on the consultant's report. The Committee also oversees the process to assess Board and committee effectiveness, evaluates potential conflicts of interest, 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 three members, all of whom are independent under the NYSE Rules. The Nominating and Governance Committee met five times during 2006, with one of the meetings being telephonic. The Report of the Nominating and Governance Committee is included as part of this proxy statement.

The Nominating and Governance Committee will consider any candidate 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' minimum 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 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, which is 70. 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**STOCK OWNERSHIP****Security Ownership of Directors and Management**

The following table shows, as of December 31, 2006, the Class A Common Stock and Common Stock of the Company and Common Stock options exercisable on or before March 1, 2007, 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	4,458	0	0	*
William F. Buehler	6,045	0	0	*
William P. Greubel	0	739	0	*
Paul W. Jones	45,800 ⁽²⁾	33,000	71,300	*
Christopher L. Mapes	10,582 ⁽²⁾	8,100	34,233	*
Ronald E. Massa	27,606 ⁽²⁾	8,100	157,866	*
Terry M. Murphy	0	21,000	0	*
Robert J. O Toole	331,146 ⁽²⁾	33,000	434,100	3.56%
Ajita G. Rajendra	15,000 ⁽²⁾	8,100	30,233	*
Bruce M. Smith ⁽³⁾	2,649 ⁽⁴⁾	2,978	0	*
Mark D. Smith ⁽³⁾	3,883	0	0	*
Idelle K. Wolf	1,381	0	0	*
Gene C. Wulf	2,826 ⁽⁵⁾	0	0	*
All 20 Directors, Nominees and Executive Officers as a Group ⁽³⁾	568,860 ⁽²⁾	140,517	1,168,565	8.38%

** 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. Jones 28,134; Mr. Rajendra 10,000; Mr. Massa 9,000; Mr. Mapes 4,000; Mr. O Toole 37,600; and all directors and executive officers as a group 117,905.

(3) Excludes shares beneficially owned by SICO.

(4) Included in this total are 2,649 shares that have been deferred.

(5) 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 SEC and the NYSE. 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 2006, the Company believes that all filing requirements applicable to its executive officers, directors and greater than ten percent beneficial owners were met.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Philosophy

We believe that effective executive compensation programs are critical to our long-term success. By having an executive compensation package that is competitive with the marketplace and focused on driving sustained superior performance, these programs align the interests of executives with the interests of shareholders and reward executives for successfully improving shareholder returns. We have developed compensation programs with the following objectives:

attracting and retaining world-class executives through a total compensation opportunity that is competitive within our industry as well as the various markets in which we compete for talent.

encouraging a pay-for-performance mentality by directly relating variable compensation elements to the achievement of financial and strategic objectives. Incentive plans are designed to recognize and reward accomplishment of individual objectives as well as Company goals.

promoting a direct relationship between executive compensation and our shareholders. Our long-term incentive opportunities link a significant portion of executive compensation to our Company's performance through restricted stock units and stock option awards. Executive officers also are expected to comply with established stock ownership guidelines which require acquisition and retention of specific levels of the Company's Common Stock.

We believe total compensation opportunity sh