

SMITH A O CORP  
Form DEF 14A  
March 07, 2005  
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## **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
- Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

**A. O. Smith Corporation**

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(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

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

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2) Aggregate number 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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4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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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 2005 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 11, 2005, at 10:00 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 2005.
- (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 23, 2005, 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 28, 2005, 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 WORLDWIDE 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 7, 2005

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**P.O. BOX 245009**

**MILWAUKEE, WI 53224-9509**

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**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 11, 2005, at 10:00 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 23, 2005 (the Record Date ). As of the Record Date, the Company had issued 8,522,912 shares of Class A Common Stock, par value \$5 per share, 8,490,317 shares of which were outstanding and entitled to one vote each for Class A Common Stock directors and other matters. As of the Record Date, the Company had issued 24,026,450 shares of Common Stock, par value \$1 per share, 21,189,813 shares of which were outstanding and entitled to one vote each for Common Stock directors and one-tenth (1/10th) vote each for other matters.

The Notice of 2005 Annual Meeting of Stockholders, this proxy statement, form of proxy card and the Company s 2004 Annual Report are being mailed on or about March 7, 2005, 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 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 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.

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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 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 2004 Annual Report and this proxy statement. Upon written or oral request, the Company will promptly deliver a separate copy of the Company's 2004 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.



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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, 2004.

<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 <sup>(1)</sup>	8,067,252	95.02%
Common Stock	Smith Investment Company 11270 West Park Place Milwaukee, WI 53224 <sup>(1)</sup>	1,559,076 <sup>(2)</sup>	7.36% <sup>(2)</sup>
Common Stock	Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	1,434,500 <sup>(3)</sup>	6.77%
Common Stock	FMR Corp., Edward C. Johnson 3d and Abigail P. Johnson 82 Devonshire Street Boston, MA 02109	2,341,010 <sup>(4)</sup>	11.06%
Common Stock	Franklin Advisory Services, LLC One Parker Plaza, Sixteenth Floor Fort Lee, NJ 07024	1,155,600 <sup>(5)</sup>	5.45%
Common Stock	Mac-Per-Wolf Company 310 S. Michigan Ave., Suite 2600 Chicago, IL 60604	1,458,290 <sup>(6)</sup>	6.89%
Common Stock	T. Rowe Price Associates, Inc. 100 East Pratt Street	2,399,450 <sup>(7)</sup>	11.33%

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Baltimore, MD 21202

- \* Throughout the balance of the proxy statement, Smith Investment Company is referred to as SICO.
- (1) Arthur O. Smith and Lloyd B. 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 Stock is 9,626,328 shares, which represents 32.9% 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 1,434,500 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) Fidelity is a wholly-owned subsidiary of FMR Corp. and an investment adviser registered under Section 203 of the Investment Advisors Act of 1940 and is a beneficial owner of 2,237,580 shares, representing 10.6% of the Common Stock outstanding. The ownership of one investment company, Fidelity Small Cap Stock Fund,

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amounted to 1,613,200 or 7.6% of the Common Stock outstanding. Edward C. Johnson 3d, FMR Corp., through its control of Fidelity, and the funds each has sole power to dispose of the 2,237,580 shares owned by the Funds.

- (5) Franklin Advisory Services, LLC has sole voting and sole dispositive power with respect to 1,155,600 shares, representing 5.5% of the Common Stock outstanding.
  
- (6) Perkins, Wolf, McDonnell and Company, LLC is a subsidiary of Mac-Per-Wolf Company, and is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940. Perkins, Wolf, McDonnell and Company, LLC furnishes investment advice to various investment companies and to individuals and institutional clients, collectively referred to herein as Managed Portfolios. Janus Small Cap Value Fund is one of the Managed Portfolios to which Perkins, Wolf, McDonnell and Company, LLC provides investment advice. Janus Small Cap Value Fund has sole voting and dispositive power with respect to 900,000 shares, representing 4.3% of the Common Stock outstanding.
  
- (7) 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 8.2% 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.

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**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, 51, was elected a director of the Company in 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** President and Chief Operating Officer.

Mr. Jones, 56, has served as a director of the Company since December, 2004. Upon the recommendation of the Nominating and Governance Committee, the Board elected him to fill a vacancy. He was elected president and chief operating officer in 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 and president and chief executive officer of Greenfield Industries, Inc. from 1993 to 1998. Mr. Jones is a director of Federal Signal Corporation.

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

Mr. O Toole, 64, became chairman of the board in 1992. He is a member of the Investment Policy Committee of the Board. He was elected chief executive officer in 1989. He was elected president, chief operating officer and a director in 1986. Mr. O Toole joined the Company in 1963. 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 of Smith Investment Company.

Mr. Smith, 56, 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. 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.

**MARK D. SMITH** Business Manager, Strattec Security Corporation.

Mr. Smith, 43, was elected a director of the Company in 2001. He is a member of the Audit Committee of the Board. He has served as a customer business manager for Strattec Security Corporation since 1997. Strattec Security

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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. 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.

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

Mr. Wulf, 54, was elected a director of the Company in 2003. He is the chairperson of the Audit Committee of the Board. Mr. Wulf was elected vice president, chief financial officer, and treasurer of Bemis Company, Inc. in 2002. He previously was 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, 65, was elected a director of the Company in 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.

**DENNIS J. MARTIN** Chairman, President and Chief Executive Officer, General Binding Corporation.

Mr. Martin, 54, was elected a director of the Company in 2004. He is a member of the Audit Committee, the Nominating and Governance Committee and the Personnel and Compensation Committee. Mr. Martin became chairman, president and chief executive officer of General Binding Corporation in 2001. From 1991 until 2001, Mr. Martin held executive and senior management positions at Illinois Tool Works. General Binding Corporation is the world's leading manufacturer and marketer of systems to organize, bind, enhance, protect and present information. Mr. Martin is a director of HON INDUSTRIES, Inc.

## **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

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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 2004, the Board held five regular meetings and one special meeting. The Committees of the Board of Directors held a total of 26 meetings. All directors attended at least 75% of the scheduled Board and Committee meetings.

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, Martin, Wulf and Mark D. Smith meet the NYSE independence requirements. Messrs. O Toole and Jones are considered management directors by virtue of their 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



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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 2004. The presiding director at these meetings was the Chairperson of the Personnel and Compensation Committee. The presiding director during the period April, 2005 to April, 2006 will be the Chairperson of the Nominating and Governance 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.

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 Mr. Wulf qualifies as an audit committee financial expert as defined by the SEC. The Audit Committee met six times during 2004, and additionally held seven telephonic meetings. The Report of the Audit Committee is included as part of this proxy statement.

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 four non-management directors. The Committee held six meetings during 2004. The Personnel and Compensation Committee Report is included as part of this proxy statement.

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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 2004.

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

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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 three members, all of whom are independent under the NYSE rules. The Nominating and Governance Committee held three meetings during 2004. 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.

## **Director Compensation**

With respect to fiscal 2004, 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.



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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.

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

The following table shows, as of January 31, 2005, the Class A Common Stock and Common Stock of the Company and Common Stock options exercisable on or before March 1, 2005, 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	Type of Stock**	Amount and Nature of	Percent
		Beneficial Ownership(1)	of Class
Ronald D. Brown	Common Stock	2,815 shares	*
William F. Buehler	Common Stock	4,312 shares	*
Donald M. Heinrich	Common Stock	160,092 shares (2)	*
Paul W. Jones	Common Stock	86,600 shares (2)	*
Kenneth W. Krueger	Common Stock	198,300 shares (2)	*
Dennis J. Martin	Common Stock	802 shares	*
Ronald E. Massa	Common Stock	258,381 shares (2)	1.22%
Robert J. O Toole	Common Stock	1,330,398 shares (2)	6.28%
W. David Romoser	Common Stock	198,719 shares (2)	*
Bruce M. Smith <sup>(3)</sup>	Common Stock	3,894 shares	*
Mark D. Smith <sup>(3)</sup>	Common Stock	2,150 shares	*
Gene C. Wulf	Common Stock	1,093 shares	*
All 20 Directors, Nominees and Executive Officers as a Group <sup>(3)</sup>	Common Stock	2,853,841 shares (2)	13.78%

\*\* None of the directors, nominees and executive officers have beneficial ownership of Class A Common Stock (see footnote 3 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 stock options exercisable on or before March 1, 2005: Mr. O Toole 985,350; Mr. Jones 40,800; Mr. Krueger 176,300; Mr. Massa 233,775; Mr. Heinrich 153,050; Mr. Romoser 141,050; and all directors and executive officers

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as a group 2,249,100; and restricted stock awards: Mr. O Toole 58,900; Mr. Jones 36,467; Mr. Krueger 13,500; Mr. Massa 13,500; Mr. Heinrich 4,500; Mr. Romoser 10,100; and all directors and executive officers as a group 184,437.

(3) Excludes shares beneficially owned by SICO.

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**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 2004, 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 2004, as well as all compensation awarded, earned or paid in the two previous fiscal years.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Annual Compensation			Long-Term Compensation			All Other Compensation (\$) <sup>(5)</sup>
	Year	Salary (\$) <sup>(1)</sup>	Bonus (\$)	Awards			
				Other Annual Compensation (\$) <sup>(2)</sup>	Restricted Stock Awards (\$) <sup>(3)</sup>	Options Granted (#) <sup>(4)</sup>	
Robert J. O Toole Chairman and Chief Executive Officer	2004	836,000	312,500	69,037	924,960	48,300	48,013
	2003	804,000	650,000	69,956	617,700	101,200	38,588
	2002	773,000	735,000	69,392	572,544	105,400	42,144
Paul W. Jones* President and Chief Operating Officer	2004	600,000	186,900	22,992	1,368,330	66,300	128,424
	2003	N/A	N/A	N/A	N/A	N/A	N/A
	2002	N/A	N/A	N/A	N/A	N/A	N/A
Kenneth W. Krueger Senior Vice President & Chief Financial Officer	2004	329,500	72,000	22,838	221,400	11,600	18,031
	2003	315,000	150,000	21,318	130,500	25,800	21,323
	2002	310,000	177,000	22,604	120,960	26,900	23,048
Ronald E. Massa Senior Vice President & President of A. O. Smith Water Products Company, a division of the Company	2004	313,518	0	21,572	221,400	11,600	27,689
	2003	301,000	70,000	21,466	130,500	25,800	30,923
	2002	294,000	255,000	23,261	120,960	26,900	150,960
Donald M. Heinrich(6) Former Senior Vice President & President of A. O. Smith Electrical Products Company, a division of the Company	2004	307,000	17,500	19,521	0	0	8,153
	2003	301,000	59,000	18,949	130,500	25,800	14,477
	2002	295,000	80,000	20,702	120,960	26,900	20,620
W. David Romoser Vice President, General Counsel and Secretary	2004	288,000	61,000	20,867	159,900	8,400	8,244
	2003	277,000	126,000	22,354	104,400	17,900	12,534
	2002	259,000	140,000	23,558	96,768	18,700	13,619

\* Mr. Jones joined the Company on January 1, 2004.

(1) Includes amounts earned during 2004 even if deferred.



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- (2) Reflects amounts of tax reimbursements in 2004.
- (3) In 2004, restricted stock was awarded under the Combined Executive Incentive Compensation Plan as follows: Mr. O Toole 37,600 shares, Mr. Jones 44,800 shares, Mr. Krueger 9,000 shares, Mr. Massa 9,000 shares, Mr. Heinrich 0 shares, and Mr. Romoser 6,500 shares. Dividends on shares of restricted stock granted under the Combined Executive Incentive Compensation Plan are credited to each individual's Supplemental Benefit Plan account. The total number of shares of restricted stock attributable to the officers identified in the table and the market value of such shares as of December 31, 2004, were as follows: Mr. O Toole 80,200 shares (\$2,401,188), Mr. Jones 44,800 shares (\$1,341,312), Mr. Krueger 13,500 shares (\$404,190), Mr. Massa 13,500 shares (\$404,190), Mr. Heinrich 4,500 shares (\$134,730) and Mr. Romoser 10,100 shares (\$302,394).
- (4) See footnote (1) in Option Grants Table as to grants in 2004.
- (5) All Other Compensation for 2004 includes the amounts of: (a) Company contributions under the Profit Sharing Retirement Plan (a 401(k) plan) and accruals under the Supplemental Benefit Plan for the 401(k) plan, and (b) the amount of premiums paid by the Company for the benefit of such persons for certain split dollar post retirement life insurance policies. The amounts paid in 2004 are as follows: Mr. O Toole (a) \$15,585 and (b) \$0; Mr. Jones (a) \$9,756, (b) \$0, and \$100,000 home purchase program payment in connection with his relocation; Mr. Krueger (a) \$3,075 and (b) \$9,346; Mr. Massa (a) \$2,682, (b) \$3,064, and \$16,333 home purchase program payment in connection with his relocation; Mr. Heinrich (a) \$2,519 and (b) \$1,464; Mr. Romoser (a) \$2,050 and (b) \$1,818. Dividends on restricted stock and deferred shares are as follows: Mr. O Toole \$32,428, Mr. Jones \$18,668, Mr. Krueger \$5,610, Mr. Massa \$5,610, Mr. Heinrich \$4,170, and Mr. Romoser \$4,376.
- (6) Mr. Heinrich resigned these positions on May 11, 2004. In connection with such resignation, Mr. Heinrich entered into a Separation Agreement with the Company, under which he has remained an employee.

**Table of Contents****STOCK OPTION GRANTS**

The table below reflects the stock option grants made under the Combined Executive Incentive Compensation Plan to each of the named executive officers during 2004.

**OPTION GRANTS TABLE**

Option Grants in 2004					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term <sup>(3)</sup>	
Individual Grants	% of				5%	10%
	Total Options					
Name	Options Granted <sup>(1)</sup>	Granted to all Employees	Exercise Price (\$/Sh)	Expiration Date		
	(#)				(\$)	(\$)
Robert J. O Toole	48,300	21.16%	\$ 24.64	10/12/14	\$ 748,455	\$ 1,896,732
Paul W. Jones	40,800 <sup>(2)</sup>	17.87%	\$ 35.29	01/02/14	\$ 736,410	\$ 1,866,209
	25,500	11.17%	\$ 24.64	10/12/14	\$ 395,147	\$ 1,001,380
Kenneth W. Krueger	11,600	5.08%	\$ 24.64	10/12/14	\$ 179,753	\$ 455,530
Ronald E. Massa	11,600	5.08%	\$ 24.64	10/12/14	\$ 179,753	\$ 455,530
Donald M. Heinrich	0	0%	N/A	N/A	\$ 0	\$ 0
W. David Romoser	8,400	3.68%	\$ 24.64	10/12/14	\$ 130,166	\$ 329,866
<b>Totals</b>	<b>146,200</b>	<b>64.04%</b>	<b>N/A</b>	<b>N/A</b>	<b>\$ 2,369,685</b>	<b>\$ 6,005,247</b>
All Stockholders (29,665,130 shares of Class A Common Stock and Common Stock)	N/A	N/A	N/A	N/A	\$ 460,771,436	\$ 1,162,899,399
Named Executive Officers % of Total Outstanding Shares	N/A	.49%	N/A	N/A	.51%	.51%

<sup>(1)</sup> Options were granted under the Combined Executive Incentive Compensation Plan. The options were granted on 10/12/04 as options to acquire Common Stock with a three-year pro rata vesting beginning on 10/12/05. All options were granted at the average of market value on the date of grant and have a 10-year term.

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- (2) An award of options was made to Mr. Jones on 1/2/04 to acquire 40,800 shares of Common Stock that first become exercisable on 1/2/05. All options were granted at an average of market value on the date of the grant and have a 10-year term.
- (3) The dollar values in these columns represent assumed rates of appreciation only, over the 10-year option term, at the 5% and 10% rates of appreciation set by the Securities and Exchange Commission rules. These amounts are not intended to predict or represent possible future appreciation of the Company's Common Stock value. Actual gains, if any, on stock option exercises and Common Stock holdings depend on future performance of the Company's Common Stock and overall stock market conditions.

**Table of Contents****OPTION EXERCISES AND YEAR-END VALUES**

The table includes information related to options exercised by each of the named executive officers during fiscal year 2004 and the number and value of options held at the end of the fiscal year.

**OPTION EXERCISES AND YEAR-END VALUE TABLE**

Aggregated Option Exercises in Fiscal Year 2004, and December 31, 2004, Option Values

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at		Value of Unexercised In-the-Money Options at	
			December 31, 2004		December 31, 2004 (\$) <sup>(1)</sup>	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert J. O Toole	86,700	\$ 588,979	985,350	48,300	\$ 10,186,432	\$ 255,990
Paul W. Jones	0	\$ 0	0	66,300	\$ 0	\$ 135,150
Kenneth W. Krueger	0	\$ 0	176,300	11,600	\$ 1,992,054	\$ 61,480
Ronald E. Massa	0	\$ 0	233,775	11,600	\$ 2,227,945	\$ 61,480
Donald M. Heinrich	24,150	\$ 334,189	153,050	0	\$ 1,396,478	\$ 0
W. David Romoser	33,450	\$ 439,680	141,050	8,400	\$ 1,274,829	\$ 44,520

<sup>(1)</sup> Based on the difference between the option exercise price and the closing price on the New York Stock Exchange of \$29.94 for the Common Stock on December 31, 2004.

**PENSION PLAN TABLE<sup>(1)</sup>**

Remuneration <sup>(2)</sup>	Years of Service <sup>(3)</sup>					
	10	20	25	30	35	40
\$250,000	\$ 41,250	\$ 82,500	\$ 103,125	\$ 123,750	\$ 144,375	\$ 165,000
350,000	57,750	115,500	144,375	173,250	202,125	231,000
400,000	66,000	132,000	165,000	198,000	231,000	264,000
500,000	82,500	165,000	206,250	247,500	288,750	330,000
750,000	123,750	247,500	309,375	371,250	433,125	495,000
1,000,000	165,000	330,000	412,500	495,000	577,500	660,000

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1,250,000	206,250	412,500	515,625	618,750	721,875	825,000
1,500,000	247,500	495,000	618,750	742,500	886,250	990,000

- (1) The Pension Plan Table shows estimated aggregate annual benefits payable to an executive officer upon retirement under the A. O. Smith Retirement Plan and the A. O. Smith Corporation Executive Supplemental Pension Plan. The A. O. Smith Corporation Executive Supplemental Pension Plan is a nonqualified excess benefit and supplemental retirement plan intended to provide benefits that participants would receive under the A. O. Smith Retirement Plan if the A. O. Smith Retirement Plan were not subject to certain limitations that the Internal Revenue Code imposes on benefits payable under it and if the A. O. Smith Retirement Plan took into account 100%, rather than 50%, of bonus compensation. The calculations assume retirement at December 31, 2005, at age 65 and the final compensation and years of service set forth in the Table. Benefit amounts were computed on a straight-life annuity basis. Amounts payable to a participant as set forth in the Table are subject to offset in an amount that is based on the value of certain life insurance arrangements in effect for the participant and are not subject to any other offsets.
- (2) The compensation covered by the A. O. Smith Retirement Plan and the A. O. Smith Corporation Executive Supplemental Pension Plan is based on the average of the highest five years of annual compensation out of the last ten years prior to retirement. The amount included in the calculation of compensation, as reflected in the Summary Compensation Table, is Salary and Bonus; but it does not include Other Annual Compensation, Long-Term Compensation or All Other Compensation amounts.
- (3) Messrs. O Toole, Jones, Krueger, Massa, Heinrich, and Romoser had 41, 1, 4, 27, 12 and 12 years of service, respectively, at year-end.

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**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The directors who served as members of the Personnel and Compensation Committee during fiscal year 2004 were Ronald D. Brown, William F. Buehler, Dennis J. Martin and Bruce M. Smith.

During 2004, the Company provided SICO consulting services; office space; directors', officers' and group insurance coverage and other miscellaneous services. The Company was reimbursed by SICO in the amount of \$108,043 for the Company's costs relating to such services.

**REPORT OF THE PERSONNEL AND COMPENSATION COMMITTEE**

The Personnel and Compensation Committee of the Board of Directors is responsible for discharging the Board's responsibilities relating to compensation of the Company's executives, establishing an executive compensation program, and administering the executive compensation policies and plans of the Company. The Committee retained Towers Perrin, an independent compensation consultant firm, to conduct a study of the Company's director and executive compensation policies, plans and practices and to advise the Committee on these matters. The Committee also determines the amount of compensation that the Company's chief executive officer and other executive officers receive annually. It reviews the chief executive officer performance, oversees management succession planning, and reviews and makes recommendations to the Board of Directors with respect to the compensation of all directors. The Committee has a written Charter which details its purpose and responsibilities. This Charter can be accessed at the Company's website, [www.aosmith.com](http://www.aosmith.com).

The Committee consists of four members, each of whom is a non-management director of the Company. This report was prepared by the Committee to provide the Company's stockholders with a summary of its executive compensation policies, program and practices.

The Committee has two primary objectives relating to the Company's executive compensation program. The first is to recruit and retain high quality executive leadership which is committed to achieving the current and long-term successful and profitable operations of the Company's businesses. The other is to maintain an incentive compensation program which links executive pay to the stockholders' return on their investment in the Company.

In order to achieve these objectives, the Committee provides an executive compensation program competitive with other comparably sized manufacturing companies. The Committee believes that return on investment currently provides the best measure of performance because it closely correlates the benefits to the stockholders with the financial incentives for the executives. The Committee has established ranges for financial incentives based upon return on investment, with smaller incentive payments for a modest return on investment and larger incentive payments for greater returns.

The Company's executive compensation program consists of three components: base salary, short-term incentive (bonus) compensation and long-term incentive (stock options, restricted stock and performance units) compensation. In determining the executive compensation practices, the Committee compares the Company's executive compensation program with other companies' compensation programs for executives with similar management responsibilities. The companies surveyed include comparable manufacturing businesses. The Committee annually reviews executive compensation databases and biannually utilizes an independent compensation consultant, which is accountable directly to the Committee, for purposes of evaluating and reviewing the Company's executive compensation program.

The Committee has designated certain executives, including the chief executive officer ( CEO ), for participation in the executive compensation program in accordance with the performance criteria and standards described below.

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### **BASE SALARY**

The Committee establishes competitive salary ranges for the executive officers, generally at the median level of the salary ranges in the survey referred to above. In addition, the Committee reviews each executive's performance and accomplishments during the prior year as well as experience and service with the Company in determining the annual base salary level for the executive within the applicable salary range. In 2004, Towers Perrin conducted an independent compensation review to assist the Committee in establishing total compensation, including base pay and short- and long-term compensation for the Company's officers, including the CEO and other key employees.

### **SHORT-TERM INCENTIVE COMPENSATION**

Short-term incentive compensation is provided under the shareholder-approved A. O. Smith Combined Executive Incentive Compensation Plan ( Plan ). The Plan, consistent with the Company's philosophy of linking compensation to the Company's return on investment, provides an opportunity for executives to earn a cash bonus, the amount of which is based upon the Company's and/or the operating unit's return on investment. Each year the Committee sets minimum and maximum financial objectives for each of the operating units and the Company. Achievement of these financial objectives by the operating or corporate units determines the amount of the Incentive Compensation Fund available for the award of individual executive bonuses.

Incentive compensation for executive officers at the Company's corporate offices is predicated on the Company achieving its financial objectives and from time to time specific strategic objectives. For executive officers at operating units, the incentive compensation is predicated on the executive's unit meeting its financial objectives and upon attainment of strategic objectives established each year for the executive. In determining the amount of the incentive compensation award to be paid to an individual executive, the Committee considers the executive's scope of responsibility, contributions to profit improvement and attainment of the individual's strategic objectives. In 2004, the Committee made incentive compensation awards to the participating executives based on these factors.

The maximum amount of incentive compensation payable to an executive during any year is \$5 million. In order to be eligible for incentive compensation, executives are required to enter into annual contracts (standard Plan contracts required for all Plan participants) which obligate them to remain in the employment of the Company for the year.

### **LONG-TERM INCENTIVE COMPENSATION**

The Committee utilizes the shareholder-approved A. O. Smith Combined Executive Incentive Compensation Plan ( Plan ) in annually making awards that will be paid in the form of stock options, restricted stock and performance units. At the Committee's discretion, stock options may be converted to stock appreciation rights. Also at the Committee's discretion is the mode of payment for performance units (either cash or stock). Grants of stock options and restricted stock are awarded to the executives at the market price of the stock on the dates of the respective grants. The size of the grants to the executive are established at a level commensurate with the median level of grants for the executive's position as reported in the aforementioned survey data and a study by the independent compensation consultant. Pursuant to the Plan, executives enter into standard Plan contracts each year which reflect the specific terms of the stock option, the restricted stock grants and the performance units and terms of forfeiture should the executive leave the employment of the Company.

### **CEO COMPENSATION**



The Committee, in establishing the 2004 compensation program for the Chief Executive Officer, Robert J. O Toole, employed the methodology, surveys and independent compensation consultant review previously described in this report. In setting Mr. O Toole s base salary for 2004, the Committee reviewed his accomplishments during the prior year, experience, and service with the Company and determined to position it at the median level of salaries of chief executive officers of comparable manufacturing companies. Mr. O Toole s bonus compensation for 2004 was directly related to the return on investment earned by the Company and reflected Committee-set minimum and maximum objectives. The maximum amount of bonus compensation payable to Mr. O Toole is \$5 million. The Committee made stock option, restricted stock and performance unit grants to Mr. O Toole under the Plan consistent with the methodology utilized in making grants to the other participating executives.

**Table of Contents****CONCLUDING REMARKS**

The Committee reviewed executive compensation during 2004 and concluded that the stockholders' interests were well served by the executive compensation program. The Committee will continue to monitor and evaluate its executive compensation program and make any adjustments determined to be appropriate. The Committee has preserved and intends to preserve the deductibility of executive compensation paid by the Company in accordance with the provisions of Section 162(m) of the Internal Revenue Code of 1986, as amended.

William F. Buehler, Chairperson

Ronald D. Brown, Committee Member

Dennis J. Martin, Committee Member

Bruce M. Smith, Committee Member

**PERFORMANCE GRAPH**

The graph below shows a five-year comparison of the cumulative shareholder return on the Company's Common Stock with the cumulative total return of the S&P Smallcap 600 Index and the S&P 600 Electrical Equipment Index, all of which are published indices.

**Comparison of Five-Year Cumulative Total Return**

**From December 31, 1999 to December 31, 2004**

**Assumes \$100 invested with Reinvestment of Dividends**

Company/Index	Base		INDEXED RETURNS			
	Period		Years Ending			
	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
A O SMITH CORP	100.00	80.30	94.57	133.71	176.81	154.25
S&P SMALLCAP 600 INDEX	100.00	111.80	119.11	101.68	141.13	173.09
S&P 600 ELECTRICAL EQUIPMENT	100.00	96.73	79.76	63.24	79.76	96.24

**Table of Contents****REPORT OF THE AUDIT COMMITTEE**

The primary responsibility of the Audit Committee is to oversee the Company's financial reporting process on behalf of the Board, to oversee the activities of the Company's internal audit function, to appoint the independent registered public accounting firm, and to report the results of the Committee's activities to the Board. Management has the primary responsibility for the financial statements and reporting process, including the systems of internal control, and Ernst & Young LLP (the independent registered public accounting firm) is responsible for auditing and reporting on those financial statements and the Company's internal control structure, as well as examining and reporting on management's assertion about the effectiveness of the Company's internal control over financial reporting. We have reviewed and discussed with management and the independent registered public accounting firm the Company's audited financial statements as of and for the year ended December 31, 2004.

During 2004, the Audit Committee met six times and held seven telephonic meetings. The Committee chair and other members of the Committee met telephonically each quarter and discussed the earnings news release and the Company's Annual Report on SEC Form 10-K and interim financial statements contained in SEC Forms 10-Q with the chief financial officer, controller, and independent registered public accounting firm prior to filing and public release.

We have discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants. Both the Director of Internal Audit and the independent registered public accounting firm have direct access to the Audit Committee at any time on any issue of their choosing, and we have the same direct access to the Director of Internal Audit and the independent registered public accounting firm. We have met with the internal auditors and the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

We have received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as amended, and have discussed with the independent registered public accounting firm their independence. In addition, we have considered the compatibility of non-audit services with the independent registered public accounting firm's independence. The Audit Committee has adopted procedures for pre-approving all audit and non-audit services provided by the independent registered public accounting firm. These procedures include reviewing and approving a budget for audit and permitted non-audit services. Audit Committee approval is required to exceed the budget amount for a particular category of non-audit services. The Audit Committee may delegate pre-approval authority to one or more members of the Audit Committee. The Audit Committee has concluded the provision of the non-audit services is compatible with maintaining the independent registered public accounting firm's independence.

During the fiscal year ended December 31, 2004, Ernst & Young LLP was employed principally to perform the annual audit and to render other services. Fees paid to Ernst & Young LLP for each of the last two fiscal years are listed in the following table:

	<b>Year Ended December 31</b>	
	<b>2004</b>	<b>2003</b>
Audit Service Fees	\$ 1,224,020	\$ 597,000
Audit Related Fees	62,500	147,100
Tax Fees	317,950	444,000

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All Other Fees	<u>None</u>	<u>None</u>
Total Fees	<u>\$ 1,604,470</u>	<u>\$ 1,188,100</u>

Audit fees consist of fees for the annual audit of the Company's financial statements and internal controls over financial reporting, reviews of financial statements included in the Company's Form 10-Q filings, statutory audits for certain of the Company's foreign locations and other services related to regulatory filings.

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Audit related fees are principally fees for accounting consultations. Tax fees consist primarily of tax consulting services.

In reliance on the reviews and discussions referred to above, we recommended to the Board of Directors that the audited financial statements, referred to above, be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission. The Committee appointed Ernst & Young LLP, as the Company's independent registered public accounting firm for fiscal 2005 and approved its estimated fees for audit, audit related, and tax services.

Gene C. Wulf, Chairperson

Mark D. Smith, Committee Member

Dennis J. Martin, Committee Member

### **APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors of the Company has appointed Ernst & Young LLP, Certified Public Accountants, as the Company's independent registered public accounting firm for 2005. Although not required to be submitted to a vote of the stockholders, the Board of Directors believes it appropriate to obtain stockholder ratification of the Audit Committee's action in appointing Ernst & Young LLP as the Company's independent registered public accounting firm. The Board of Directors has itself ratified the Audit Committee's action. Should such appointment not be ratified by the stockholders, the Audit Committee of the Board of Directors will reconsider the matter.

### **REPORT OF THE NOMINATING AND GOVERNANCE COMMITTEE**

The Nominating and Governance Committee met three times during the year. The Committee reviewed and ratified its charter, which provides that the Committee is responsible for the nomination of directors and the Company's corporate governance practices. The Committee considered candidates for director and recommended to the Board Dennis J. Martin, who was initially elected by the Board of Directors in January, 2004, and Paul W. Jones, who was initially elected in December, 2004. It also monitored the corporate governance of the Company. It recommended to the Board of Directors updates to the corporate governance guidelines, which the Board adopted. It reviewed the code of business conduct and financial code of ethics, minimum qualifications for directors, the process and procedure for shareholder recommendation of director candidates and shareholder communications with the Board, which the Board previously adopted. The Committee reviewed the effectiveness of the dissemination and disclosure of these and other corporate governance documents, including its charter, to employees and dissemination to shareholders via the Company's website. The address of the website is [www.aosmith.com](http://www.aosmith.com). These documents are also available upon request from the corporate secretary. No waivers were sought or granted from the Company's code of conduct. The Committee is not aware of any situation or circumstance that would require a waiver.

The Committee reviewed Board committee member qualifications and made recommendations to the Board on member appointments to committees. The Committee reviewed the Board's committee structure and operations and reported to the Board regarding them.

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The Committee also conducted an evaluation of its performance and oversaw the evaluation process to ensure that the Board and each of the other committees performed its own self-evaluation and reported on it to the Board of Directors.

Ronald D. Brown, Chairperson

William F. Buehler, Committee Member

Dennis J. Martin, Committee Member

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**OTHER BUSINESS**

Management is not aware of any matters other than those stated above that may be presented for action at the meeting, but should any matter requiring a vote of the stockholders arise, it is intended that proxies solicited will be voted in respect thereof in accordance with the discretion of the person or persons voting the proxies.

**BOARD INFORMATION AND STOCKHOLDER COMMUNICATIONS**

The Company is committed to making its corporate governance information accessible to stockholders and other interested parties. Accordingly, on its website, [www.aosmith.com](http://www.aosmith.com), under the Corporate Governance heading, the Company has published the A. O. Smith Corporation Guiding Principles, Financial Code of Ethics, Corporate Governance Guidelines, Criteria for Selecting Board of Director Candidates, a list of the Board of Directors and Committee Assignments, and the Charters for the Audit, Personnel and Compensation, Nominating and Governance, and Investment Policy Committees. Further, SEC filings, including the Company's Form 10-K and Section 16 filings, are available for review on this website under the heading Investor Relations. Stockholders may also request that these documents be mailed by sending their request to the address provided below.

The Company encourages stockholder communication with directors. Stockholders may communicate with a particular director, all directors or the presiding director by mail or courier addressed to him/her or the entire Board in care of the Corporate Secretary at the following address:

c/o W. David Romoser, Corporate Secretary

A. O. Smith Corporation

11270 West Park Place

P.O. Box 245009

Milwaukee, Wisconsin 53224-9509

The Corporate Secretary will forward this communication unopened to the addressed director.

**DATE FOR STOCKHOLDER PROPOSALS**

Proposals of stockholders intended to be presented at the 2006 annual meeting of stockholders, including recommendations of candidates to be elected to the Board, must be received by the Company no later than November 4, 2005, to be considered for inclusion in the Company's proxy materials for the 2006 meeting. If a stockholder who otherwise desires to bring a proposal before the 2006 meeting does not notify the Company of its intent to do so on or before January 18, 2006, then the proposal will be untimely, and the proxies will be able to vote on the proposal in their discretion.

March 7, 2005

**EVEN IF YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE, OR VOTE YOUR SHARES VIA THE TELEPHONE OR INTERNET. IF YOU ATTEND THE MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE YOUR SHARES IN PERSON.**



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COMPANY #

**There are three ways to vote your Proxy**

**Your telephone or Internet vote authorizes the Named Proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.**

**VOTE BY TELEPHONE TOLL FREE 1-800-560-1965 QUICK \*\*\* EASY \*\*\* IMMEDIATE**

Use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on April 8, 2005.

Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions the voice provides you.

**VOTE BY INTERNET <http://www.eproxy.com/aos/> QUICK \*\*\* EASY \*\*\* IMMEDIATE**

Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on April 8, 2005.

Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions to obtain your records and create an electronic ballot.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we've provided or return it to A. O. SMITH CORPORATION, c/o Shareowner Services<sup>SM</sup>, P.O. Box 64873, St. Paul, MN 55164-0873.

**If you vote by Telephone or Internet, please do not mail your Proxy Card**

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**A. O. SMITH CORPORATION 2005 ANNUAL MEETING**

**PROXY - COMMON STOCK**

This proxy when properly executed will be voted in the manner directed herein by the undersigned. If no direction is made, this proxy will be voted FOR proposals 1 and 2.

1. Election of directors: 01 William F. Buehler 02 Dennis J. Martin

Vote FOR

Vote WITHHELD

all nominees

from all nominees

(except as marked)

**(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)**

2. Proposal to approve the ratification of Ernst & Young LLP as

the independent registered public accounting firm of the

corporation:

**Directors recommend a vote FOR.**

FOR

AGAINST

ABSTAIN

Date

Address change? Mark Box

Indicate changes below:

Signature(s) in Box

Please sign exactly as your name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

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**ANNUAL MEETING OF STOCKHOLDERS**

**Monday, April 11, 2005**

**10:00 a.m. Eastern Time**

**Hotel du Pont**

**11<sup>th</sup> and Market Streets**

**Wilmington, Delaware 19801**

**A. O. SMITH CORPORATION**

**PROXY - COMMON STOCK**

**This Proxy is Solicited on Behalf of the Board of Directors**

The undersigned hereby appoints ROBERT J. O TOOLE, KENNETH W. KRUEGER and W. DAVID ROMOSER, or any one of them, with full power of substitution, as proxy or proxies of the undersigned to attend the annual meeting of stockholders of A. O. Smith Corporation to be held on April 11, 2005, at 10:00 a.m. Eastern Time, at the Hotel du Pont, 11<sup>th</sup> and Market Streets, Wilmington, Delaware, or at any adjournment thereof, and there to vote all shares of Common Stock which the undersigned would be entitled to vote if personally present as specified upon the following matters and in their discretion upon such other matters as may properly come before the meeting.

**This proxy when properly executed will be voted in the manner directed herein by the undersigned.**

**If no direction is made, this proxy will be voted FOR proposals 1 and 2.**

**PLEASE VOTE BY TELEPHONE OR THE INTERNET OR MARK, SIGN, DATE  
AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.**

*See reverse for voting instructions.*

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**VOTE BY INTERNET <http://www.eproxy.com/aos/> QUICK \*\*\* EASY \*\*\* IMMEDIATE**

Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on April 8, 2005.

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**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we've provided or return it to A. O. SMITH CORPORATION, c/o Shareowner Services<sup>SM</sup>, P.O. Box 64873, St. Paul, MN 55164-0873.

**If you vote by Telephone or Internet, please do not mail your Proxy Card**

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**A. O. SMITH CORPORATION 2005 ANNUAL MEETING**

**PROXY - CLASS A COMMON STOCK**

This proxy when properly executed will be voted in the manner directed herein by the undersigned. If no direction is made, this proxy will be voted FOR proposals 1 and 2.

1. Election of directors:	01 Ronald D. Brown	04 Bruce M. Smith	“ Vote FOR	“ Vote WITHHELD
	02 Paul W. Jones	05 Mark D. Smith		
	03 Robert J. O Toole	06 Gene C. Wulf		
			all nominees	from all nominees
			(except as marked)	

**(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)**

2. Proposal to approve the ratification of Ernst & Young LLP as the

independent registered public accounting firm of the corporation:

**Directors recommend a vote FOR.**

“ FOR            “ AGAINST            “ ABSTAIN

Date \_\_\_\_\_

Address change? Mark Box “

Indicate changes below:

Signature(s) in Box

Please sign exactly as your name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.



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**ANNUAL MEETING OF STOCKHOLDERS**

**Monday, April 11, 2005**

**10:00 a.m. Eastern Time**

**Hotel du Pont**

**11<sup>th</sup> and Market Streets**

**Wilmington, Delaware 19801**

**A. O. SMITH CORPORATION**

**PROXY - CLASS A COMMON STOCK**

**This Proxy is Solicited on Behalf of the Board of Directors**

The undersigned hereby appoints ROBERT J. O TOOLE, KENNETH W. KRUEGER and W. DAVID ROMOSER, or any one of them, with full power of substitution, as proxy or proxies of the undersigned to attend the annual meeting of stockholders of A. O. Smith Corporation to be held on April 11, 2005, at 10:00 a.m. Eastern Time, at the Hotel du Pont, 11<sup>th</sup> and Market Streets, Wilmington, Delaware, or at any adjournment thereof, and there to vote all shares of Class A Common Stock which the undersigned would be entitled to vote if personally present as specified upon the following matters and in their discretion upon such other matters as may properly come before the meeting.

**This proxy when properly executed will be voted in the manner directed herein by the undersigned.**

**If no direction is made, this proxy will be voted FOR proposals 1 and 2.**

**PLEASE VOTE BY TELEPHONE OR THE INTERNET OR MARK, SIGN, DATE  
AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.**

*See reverse for voting instructions.*

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**If you vote by Telephone or Internet, please do not mail your Proxy Card**

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**A. O. SMITH CORPORATION 2005 ANNUAL MEETING**

**VOTING INSTRUCTIONS**

Voting Instructions to the Trustee: If no choices are marked below, the Trustee will vote FOR proposals 1 and 2.

1. Election of directors: 01 William F. Buehler 02 Dennis J. Martin	☐ Vote FOR all	☐ Vote WITHHELD
	nominees	from all nominees
	(except as marked)	

**(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)**

2. Proposal to approve the ratification of Ernst & Young LLP as the independent registered public accounting firm of the corporation:

**Directors recommend a vote FOR.**

☐ FOR      ☐ AGAINST      ☐ ABSTAIN  
Date \_\_\_\_\_

Address change? Mark Box ☐

Indicate changes below: \_\_\_\_\_

Signature(s) in Box  
Please sign exactly as your name appears on this proxy.  
When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

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**ANNUAL MEETING OF STOCKHOLDERS**

**Monday, April 11, 2005**

**10:00 a.m. Eastern Time**

**Hotel du Pont**

**11<sup>th</sup> and Market Streets**

**Wilmington, Delaware 19801**

**A. O. SMITH CORPORATION**

**Voting Instructions to the Marshall & Ilsley Trust Company N.A.**

**Trustee of the A. O. Smith Corporation**

**Master Trust**

**This Voting Instruction is Solicited on Behalf of the Trustee**

The undersigned hereby directs the Marshall & Ilsley Trust Company N.A., Trustee of the A. O. Smith Corporation Master Trust, to vote the shares of A. O. Smith Corporation Common Stock allocated to the undersigned's account in said Trust at the Annual Meeting to be held on April 11, 2005, and all adjournments.

**Voting Instructions to the Trustee: If no choices are marked, the Trustee will vote FOR proposals 1 and 2.**

**PLEASE VOTE BY TELEPHONE OR THE INTERNET OR MARK, SIGN, DATE  
AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.**

*See reverse for voting instructions.*