

SMITH A O CORP  
Form DEF 14A  
March 02, 2016  
**Table of Contents**

**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

**A. O. Smith Corporation**

**(Name of Registrant as Specified in Its Charter)**

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

Edgar Filing: SMITH A O CORP - Form DEF 14A

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:

2) Aggregate number of securities to which transaction applies:

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):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

☐ Fee paid previously with preliminary materials

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing party:

4) Date Filed:

**Table of Contents**

March 2, 2016

DEAR FELLOW A. O. SMITH STOCKHOLDER:

I am pleased to invite you to our Annual Meeting of Stockholders, to be held at the Business Roundtable, 300 New Jersey Avenue, NW, Suite 800, Washington, D.C. on Monday, April 11, 2016, at 5:15 p.m., Eastern Daylight Time. The attached Notice of our 2016 Annual Meeting of Stockholders and Proxy Statement will serve as your guide to the business we will address at the meeting. You can also review our 2015 Annual Report, which incorporates our Form 10-K, to learn more about our financial performance.

Your vote is important. We encourage you to sign and return your proxy, vote by telephone or through the Internet as soon as possible so that your shares will be represented and voted at the meeting. Even if you submit a proxy, you can revoke it at any time before the meeting if you choose to attend and vote in person.

Thank you for being a stockholder and for your support of our company. I hope to see you at the Annual Meeting of Stockholders.

Sincerely,

Ajita G. Rajendra

Chairman, President and Chief Executive Officer

**Table of Contents**

March 2, 2016

**NOTICE OF 2016 ANNUAL MEETING OF STOCKHOLDERS**

The 2016 Annual Meeting of Stockholders of A. O. Smith Corporation will be held at the Business Roundtable, 300 New Jersey Avenue, NW, Suite 800, Washington, D.C. on Monday, April 11, 2016, at 5:15 p.m., Eastern Daylight Time, for the following purposes:

- (1) To elect our Board of Directors;
- (2) To hold an advisory vote to approve the compensation of our named executive officers;
- (3) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016;
- (4) To ratify an amendment to our By-Laws to designate Delaware as the exclusive forum for the adjudication of certain disputes;
- (5) To approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock;
- (6) To approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock; and
- (7) To consider and act upon such other business as may properly come before the Annual Meeting.

Stockholders of record as of February 16, 2016, are entitled to vote at the Annual 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 23, 2016, for examination by stockholders for purposes related to the meeting.

Whether or not you plan to attend the meeting, we encourage you to vote your shares. You may vote your shares over the Internet, as we describe in the accompanying materials and the Notice of Internet Availability of Proxy Materials. As an alternative, if you received a paper copy of the Proxy Card by mail, you may sign, date and mail the Proxy Card in the envelope provided, or use the toll-free telephone number on the Proxy Card. No postage is necessary if mailed in the United States. Voting over the Internet, via the toll-free number or mailing a Proxy Card will not limit your right to vote in person or to attend the Annual Meeting.

Edgar Filing: SMITH A O CORP - Form DEF 14A

By Order of the Board of Directors,

James F. Stern

Executive Vice President,

General Counsel and Secretary

A. O. Smith Corporation

11270 West Park Place

Milwaukee, WI 53224

**Table of Contents**

**PROXY STATEMENT FOR 2016 ANNUAL MEETING**

**TABLE OF CONTENTS**

<u>GENERAL INFORMATION</u>	1
<u>PRINCIPAL STOCKHOLDERS</u>	5
<u>ELECTION OF DIRECTORS</u>	6
<u>GOVERNANCE OF OUR COMPANY</u>	10
<u>The Board of Directors</u>	10
<u>Director Independence and Financial Literacy</u>	10
<u>Board Information and Stockholder Communications</u>	11
<u>Compensation Committee Interlocks and Insider Participation</u>	12
<u>Procedure for Review of Related Party Transactions</u>	12
<u>Potential Director Candidates</u>	12
<u>Board Committees</u>	13
<u>Audit Committee</u>	13
<u>Personnel and Compensation Committee</u>	13
<u>Investment Policy Committee</u>	13
<u>Nominating and Governance Committee</u>	13
<u>Our Leadership Structure</u>	14
<u>Consideration of Risk</u>	15
<u>DIRECTOR COMPENSATION</u>	17
<u>STOCK OWNERSHIP</u>	19
<u>Security Ownership of Directors and Management</u>	19
<u>Compliance with Section 16(a) of the Securities Exchange Act</u>	19
<u>EXECUTIVE COMPENSATION</u>	20
<u>Compensation Discussion and Analysis</u>	20
<u>Summary Compensation</u>	32
<u>Components of 2015 All Other Compensation</u>	33
<u>Grants of Plan-Based Awards</u>	34
<u>Outstanding Equity Awards at December 31, 2015</u>	36
<u>Option Exercises and Stock Vested</u>	38
<u>Pension Benefits</u>	38
<u>Nonqualified Deferred Compensation</u>	40
<u>Employment Contracts, Termination of Employment and Change in Control Arrangements</u>	40
<u>REPORT OF THE PERSONNEL AND COMPENSATION COMMITTEE</u>	44
<u>ADVISORY VOTE TO APPROVE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS</u>	44
<u>REPORT OF THE AUDIT COMMITTEE</u>	45
<u>RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	46
<u>REPORT OF THE NOMINATING AND GOVERNANCE COMMITTEE</u>	46
<u>RATIFICATION OF AN AMENDMENT TO OUR BY-LAWS TO DESIGNATE DELAWARE AS THE EXCLUSIVE FORUM FOR THE ADJUDICATION OF CERTAIN DISPUTES</u>	47
<u>APPROVAL OF AMENDMENT TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK</u>	48
<u>APPROVAL OF AMENDMENT TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF CLASS A COMMON STOCK</u>	50
<u>DATE FOR STOCKHOLDER PROPOSALS</u>	51

---

**Table of Contents**

---

**PROXY STATEMENT**

**2016 ANNUAL MEETING**

---

**GENERAL INFORMATION**

This Proxy Statement is furnished to stockholders of A. O. Smith Corporation in connection with the solicitation by its Board of Directors of proxies for use at the Annual Meeting of Stockholders of our company to be held on April 11, 2016, at 5:15 p.m., Eastern Daylight Time (EDT), at the Business Roundtable, 300 New Jersey Avenue, NW, Suite 800, Washington, D.C.

Under rules of the Securities and Exchange Commission, or "SEC", we are furnishing proxy materials, which include our Proxy Statement and Annual Report, to our stockholders over the Internet and providing a Notice of Internet Availability of Proxy Materials by mail. You will not receive a printed copy of the proxy materials unless you request to receive these materials in hard copy by following the instructions provided in the Notice of Internet Availability of Proxy Materials. Instead, the Notice of Internet Availability of Proxy Materials will instruct you how you may access and review all of the important information contained in the proxy materials. The Notice of Internet Availability of Proxy Materials also instructs you how you may submit your proxy via the Internet. If you received a Notice of Internet Availability of Proxy Materials by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the Notice of Internet Availability of Proxy Materials.

The company is mailing the Notice of Internet Availability of Proxy Materials on or about March 2, 2016, to each stockholder at the holder's address of record.

**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on April 11, 2016: The Notice of 2016 Annual Meeting of Stockholders, this Proxy Statement and our 2015 Annual Report are also available at [www.proxydocs.com/aos](http://www.proxydocs.com/aos).**

**Record Date**

The record date for stockholders entitled to notice of and to vote at the meeting is the close of business on February 16, 2016 (the "Record Date"). As of the Record Date, we had issued 13,186,698 shares of Class A Common Stock, par value \$5 per share, 13,121,508 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, we had issued 82,167,099 shares of Common Stock, par value \$1 per share, 74,757,900 shares of which were outstanding and entitled to one (1) vote each for Common Stock directors and one-tenth (1/10<sup>th</sup>) vote each for other matters.



### **Class Voting for Directors**

Under our Amended and Restated Certificate of Incorporation, as long as the number of outstanding shares of our Common Stock is at least 10% of the aggregate number of outstanding shares of our Class A Common Stock and 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 our Common Stock are entitled to elect, as a class, 33 1/3% of our entire Board of Directors, rounded up to the next whole director, and the holders of our Class A Common Stock are entitled to elect the remainder of the Board. The holders of our Class A Common Stock have the right to elect the remainder of the directors of the Board pursuant to the preceding sentence as long as the number of outstanding shares of our Class A Common Stock is 12.5% or more of the aggregate number of outstanding shares of our Class A Common Stock and Common Stock. Stockholders are entitled to one (1) vote per share in the election of directors for their class of stock.

## **Table of Contents**

### **Quorum**

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 non-votes, if any, are counted as present in determining whether the quorum requirement is met.

### **Required Vote**

Directors are elected by a plurality of the votes cast, by proxy (whether by Internet, telephone or mail) or in person, with the holders voting as separate classes. This 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 non-votes or otherwise, will have no effect on the election of directors.

The proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock will be approved if a majority of the outstanding shares of Common Stock voting as a separate class and a majority of the outstanding shares of Class A Common Stock and Common Stock, voting 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, are voted in favor of the amendment. The proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock will be approved if a majority of the outstanding shares of Class A Common Stock voting as a separate class and a majority of the outstanding shares of Class A Common Stock and Common Stock, voting 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, are voted in favor of the amendment. Both abstentions and broker non-votes will have the same effect as votes against approval of each of these proposals.

In addition, (i) the effectiveness of the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock is conditioned upon stockholder approval of the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock and (ii) the effectiveness of the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock is conditioned upon stockholder approval of the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock. As a result, if stockholders do not approve one of these proposals, then the other proposal will fail. Accordingly, a vote against one of these proposals may have the same effect as a vote against the other proposal.

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. The proposal to approve the compensation of our named executive officers by advisory vote, the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm, and the proposal to ratify an amendment to our By-Laws to designate Delaware as the exclusive forum for the adjudication of certain disputes will be approved if a majority of the votes present or represented at the meeting are cast in favor of the matter. Abstentions will have the same effect as a vote against but, because shares held by brokers will not be considered entitled to vote on matters as to which the beneficial owners withhold authority, a broker non-vote will have no effect on the vote.

### **Cost of Soliciting Proxies**

## Edgar Filing: SMITH A O CORP - Form DEF 14A

The cost of soliciting proxies, including preparing, assembling and mailing the 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 us, except for some costs associated with individual stockholders' use of the Internet or telephone. In addition to solicitation by mail, directors, officers, regular employees and others may also, but without

## **Table of Contents**

compensation other than their regular compensation, solicit proxies personally or by telephone or other means of electronic communication. We 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 materials to principals and beneficial owners.

### **How to Vote**

**Via the Internet** Stockholders can simplify their voting by voting their shares via the Internet as instructed in the Notice of Internet Availability of Proxy Materials. The Internet procedures are designed to authenticate a stockholder's identity to allow stockholders to vote their shares and confirm that their instructions have been properly recorded. Internet voting for stockholders of record is available 24 hours a day and will close at 11:59 p.m. (CDT) on April 7, 2016.

**By Telephone** Stockholders of record who received a paper Proxy Card can vote their shares by a toll-free number on the Proxy Card or in the voting instruction form sent by their broker, bank or other agent. Telephone voting for stockholders of record is available 24 hours a day and will close at 11:59 p.m. (CDT) on April 7, 2016.

**By Mail** Stockholders of record who have received a paper Proxy Card may vote by completing, signing and dating their Proxy Card and mailing it in the pre-addressed envelope. Proxy Cards submitted by mail must be received by April 8, 2016 for your shares to be voted. Stockholders who hold shares beneficially in street name and received a voting instruction form from their broker, bank or other agent, may vote by completing, signing and dating the instruction form provided by the broker, bank or other agent and mailing it in the pre-addressed envelope provided.

If you vote via the Internet, by telephone or by mailing a Proxy Card, we will vote your shares as you direct. For the election of directors, you can specify whether your shares should be voted for all or some of the nominees for director listed or you may withhold your vote from all or some of the nominees for director. With respect to the proposal to approve the compensation of our named executive officers by advisory vote, the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm, the proposal to ratify an amendment to our By-Laws to designate Delaware as the exclusive forum for the adjudication of certain disputes, the proposal to amend our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock, and the proposal to amend our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock, you may vote for or against any proposal or you may abstain from voting on any proposal.

If you submit a proxy via the Internet, by telephone or by mailing a Proxy Card without indicating your instructions, we will vote your shares consistent with the recommendations of our Board of Directors as stated in this Proxy Statement specifically in favor of our nominees for directors, in favor of approving the compensation of our named executive officers, in favor of the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm, in favor of the ratification of an amendment to our By-Laws to designate Delaware as the exclusive forum for the adjudication of certain disputes, in favor of approving an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock, and in favor of approving an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock. If any other matters are properly presented at the Annual Meeting for consideration, then our officers named on your proxy will have discretion to vote for you on those matters. As of the date of the Notice of 2016 Annual Meeting of Stockholders, we knew of no other matters to be presented at the Annual Meeting.

## Edgar Filing: SMITH A O CORP - Form DEF 14A

**At the Annual Meeting** Shares held in your name as the stockholder of record may be voted by you in person at the Annual Meeting. Shares held beneficially in street name may be voted by you in person at the Annual Meeting only if you obtain a legal proxy from the broker or other agent that holds your shares giving you the right to vote the shares and bring such proxy to the Annual Meeting.

**Table of Contents**

**Revocation of Proxies**

You may revoke your proxy at any time before the Annual Meeting by delivering written notice of revocation or a duly executed proxy bearing a later date to the Corporate Secretary of our company or by attending the meeting and voting in person.

**Stockholders Sharing the Same Address**

SEC rules permit us to deliver only one copy of a single set of proxy materials to multiple stockholders sharing the same address. Upon written or oral request, we will promptly deliver a separate copy of our 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 our company of their requests by calling or writing Patricia K. Ackerman, Vice President, Investor Relations and Treasurer, A. O. Smith Corporation, P.O. Box 245008, Milwaukee, Wisconsin 53224-9508; (414) 359-4130.

**Table of Contents****PRINCIPAL STOCKHOLDERS**

The following table shows persons who may be deemed to be beneficial owners (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of more than 5% of any class of our stock. Unless otherwise noted, the table reflects beneficial ownership as of December 31, 2015.

<b>Title of Class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
Class A Common Stock	Smith Family Voting Trust <sup>1</sup>  11270 West Park Place  Milwaukee, WI 53224	12,570,600	95.80%
Common Stock	Vanguard Group, Inc.  100 Vanguard Blvd.  Malvern, PA 19355	6,254,859 <sup>2</sup>	8.35%
Common Stock	BlackRock Inc.  55 East 52 <sup>nd</sup> Street  New York, NY 10055	5,129,477 <sup>3</sup>	6.80%
Common Stock	FMR LLC  Abigail P. Johnson  245 Summer Street  Boston, MA 02210	4,707,581 <sup>4</sup>	6.29%
Common Stock	State Street Corporation  State Street Financial Center  One Lincoln Street  Boston, MA 02111	3,745,498 <sup>5</sup>	5.00%

<sup>1</sup> The Smith Family Voting Trust (the "Voting Trust") owned 12,570,600 shares of Class A Common Stock and 1,042,050 shares of Common Stock as of December 31, 2015. Pursuant to our Amended and 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. As a result, a holder of shares of Class A Common Stock is deemed to beneficially own an equal number of shares of Common Stock. However, to avoid overstatement of the aggregate beneficial ownership of both classes of our outstanding capital stock, the shares of Class A Common Stock listed in the table do not include shares of Common Stock that may be acquired upon the conversion of outstanding shares of Class A Common Stock. The trustees of the Voting Trust are Bruce M. Smith, Arthur O. Smith (who is the uncle of Bruce M. Smith) and Robert L. Smith (who is the brother of Bruce M. Smith). The trustees do not have beneficial ownership of shares of Class A Common Stock or Common Stock owned by the Voting Trust. The Voting Trust has sole voting power, exercised by a majority of the three trustees, with respect to shares in the Voting Trust.

## Edgar Filing: SMITH A O CORP - Form DEF 14A

Whenever beneficiaries of the Voting Trust possessing trust interests representing in the aggregate at least 75% of all the votes represented in the Voting Trust direct the sale of shares in the Voting Trust, the trustees must make the sale. If the trustees unanimously authorize a sale of shares in the Voting Trust, with the written consent of beneficiaries of the Voting Trust possessing trust interests representing in the aggregate a majority of all of the votes represented in the Voting Trust, the trustees may make the sale. The Voting Trust will exist until April 23, 2039, and thereafter for additional 30-year renewal periods unless earlier terminated by a vote of beneficiaries holding 75% or more of the votes in the Voting Trust or by applicable law.

- <sup>2</sup> Based on the Schedule 13G/A Vanguard Group, Inc. filed with the SEC on February 10, 2016. Vanguard Group, Inc. has sole voting power over 55,059 shares, shared voting power over 4,000 shares, sole dispositive power over 6,200,400 shares and shared dispositive power over 54,459 shares.
- <sup>3</sup> Based on the Schedule 13G/A BlackRock Inc. filed with the SEC on January 25, 2016. BlackRock Inc. has sole voting power over 4,862,361 shares and sole dispositive power over 5,129,477 shares.
- <sup>4</sup> Based on the Schedule 13G FMR LLC and Abigail P. Johnson filed with the Securities and Exchange Commission on February 12, 2016. Abigail P. Johnson and FMR LLC, through its control of Fidelity Management & Research Company, have sole power over 52,360 shares, and sole dispositive power over 4,707,581 shares.
- <sup>5</sup> Based on the Schedule 13G State Street Corporation filed with the SEC on February 12, 2016. State Street Corporation, together with its subsidiaries, has shared voting power and shared dispositive power over 3,745,498 shares.

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



**Table of Contents**

**ELECTION OF DIRECTORS**

Ten directors are to be elected to serve until the next succeeding Annual Meeting of Stockholders and thereafter until their respective successors are duly elected and qualified. Owners of Common Stock are entitled to elect four directors, and owners of Class A Common Stock are entitled to elect the six remaining directors.

It is intended that proxies we are soliciting will be voted for the election of the nominees named below. Proxies will not be voted for a greater number of persons than the ten nominees named below. All nominees have consented to being named in this 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.

Set forth below is information regarding the business experience of each nominee for director that has been furnished to us by the respective nominees for director. Each nominee has been principally engaged in the employment indicated for the last five years unless otherwise stated. Also set forth below for each nominee for director is a discussion of the experience, qualifications, attributes or skills that led to the conclusion that the nominee should serve as a director.

**NOMINEES CLASS A COMMON STOCK**

**RONALD D. BROWN** Chief Operating Officer, The Armor Group, Inc.

Mr. Brown, 62, has been a director of our company since 2001. He is the Chairperson of the Personnel and Compensation Committee and a member of the Nominating and Governance Committee of the Board. Mr. Brown joined The Armor Group, Inc. in 2013 as chief operating officer. The Armor Group, Inc. is a certified woman-owned corporation which manufactures equipment and products, and provides related services to a variety of industrial markets, including beverage and food service, medical, power generation, automobile, and military. From 2009 until 2014, Mr. Brown was managing director of Taft Business Consulting, LLC, a consulting group affiliated with the law firm of Taft Stettinius & Hollister LLP, which provides advisory services on a range of business issues. From 2010 to 2013, Mr. Brown served as chief financial officer of Makino, Inc., a privately-held global metalworking technologies company. Prior to that, Mr. Brown was chairman and chief executive officer of Milacron Inc. from 2001 to 2008, and president and chief operating officer of Milacron Inc. from 1999 through 2001. He joined Milacron Inc. in 1980. Milacron is a supplier of plastic processing and metalworking fluid technologies; the company filed for bankruptcy in 2009. Mr. Brown also served on the Board of Zep Inc., where he was Chairman of the Compensation Committee and a member of the Nominating and Corporate Governance Committee, until it was acquired by New Mountain Capital in June 2015. He also joined the James Advantage Funds in 2014 as a trustee, where he serves on its Audit Committee.

Mr. Brown's experience as chief executive officer and chairman of a publicly-held company provides valuable insight for us as to the issues and opportunities facing our company. Further, he has international and manufacturing experience with The Armor Group, and in his previous position at Milacron. Like our company, The Armor Group has a manufacturing plant in Asia and, like us, Milacron faced the challenge of competing against foreign manufacturers and operated international manufacturing plants, particularly in Asia. In addition, Mr. Brown has experience as a chief financial officer and a corporate attorney. His legal background makes him well-suited to address legal and governance requirements of the SEC and New York Stock Exchange, both as Chairperson of the Personnel and Compensation Committee and as a member of our Nominating and Governance Committee.

## Edgar Filing: SMITH A O CORP - Form DEF 14A

**PAUL W. JONES** Retired Executive Chairman of the Board, A. O. Smith Corporation

Mr. Jones, 67, has been a director of our company since 2004. He is a member of the Investment Policy Committee of the Board. He was executive chairman of the board from 2013 until his retirement in 2014. Mr. Jones served as chairman of the board and chief executive officer from 2011 to 2012; chairman of the board, president and

## **Table of Contents**

chief executive officer from 2006 to 2011; and president and chief operating officer from 2004 to 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 has been a director of Federal Signal Corporation since 1998, where he chairs the Nominating and Governance Committee and is a member of the Compensation and Benefits Committee; and a director of Rexnord Corporation since 2014, where he is a member of the Nominating and Governance Committee and the Compensation Committee, and was elected Non-Executive Chairman in July, 2015; and was a director of Integrys Energy Group, Inc. where he chaired the Financial Committee and was a member of the Audit Committee from 2011 until its merger into Wisconsin Energy Corporation on June 29, 2015 and, since June 30, 2015, has continued as a director of the newly formed entity, WEC Energy Group, Inc., where he is a member of its Audit Committee. He also was a director of Bucyrus International, Inc. from 2006 until its acquisition by Caterpillar, Inc. in 2011, and chaired its Compensation Committee.

Mr. Jones has extensive leadership experience as chief executive officer and chairman, both at our company and previously at U.S. Can and Greenfield Industries. He brings to our company this diverse background as the leader of a world-class manufacturing company. He is experienced in managing the operational activities of a large business and providing overall direction for a complex corporation like ours. Further, Mr. Jones is and has been a director of several other publicly-traded companies, and shares his insights as to best practices from those experiences.

**AJITA G. RAJENDRA** Chairman, President and Chief Executive Officer.

Mr. Rajendra, 64, has been a director of our company since 2011. He is a member of the Investment Policy Committee of the Board. Mr. Rajendra became chairman, president and chief executive officer in 2014. Mr. Rajendra previously served as president and chief executive officer in 2013, and as president and chief operating officer of the company from 2011 to 2012. Mr. Rajendra joined the company as president of A. O. Smith Water Products Company in 2005, and was named executive vice president of the company in 2006. Prior to joining the company, Mr. Rajendra was senior vice president at Kennametal, Inc., a manufacturer of cutting tools, from 1998 to 2004. Mr. Rajendra also serves on the board of Donaldson Company, Inc., where he is a member of the Audit Committee and Human Resources Committee, and on the board of The Timken Company, where he serves on the Audit and Compensation Committees. Further, Mr. Rajendra was a director of Industrial Distribution Group, Inc. from 2007 until its acquisition by Eiger Holdco, LLC in 2008.

Mr. Rajendra's extensive manufacturing and international experience, and service to our company as our president and chief executive officer and in various other senior executive positions, brings to the Board knowledge and insight as to our company's global operations and a thorough understanding of our products and markets. Further, Mr. Rajendra has other experience as a director of other publicly-traded companies.

**MATHIAS F. SANDOVAL** Advisor, Grupo Terra.

Mr. Sandoval, 55, has been a director of our company since 2010. He is a member of the Personnel and Compensation Committee and the Nominating and Governance Committee. Since 2013, Mr. Sandoval has been an advisor to the executive group of Grupo Terra, a privately-held diversified investment company with significant operations in Central and South America in the energy, oil, infrastructure, retail and real estate development sectors. Mr. Sandoval previously was chief executive officer and president of Phelps Dodge International Corporation from 2001 to 2012 and executive vice president of its parent company, General Cable Corporation, where he was chief executive officer and president of General Cable's Rest of World segment, from 2007 to 2012. He began his 28-year career in the wire and cable industry as a process engineer in Phelps Dodge's Costa Rican operation and held numerous executive management positions at Phelps Dodge, including general manager of the Honduras-based business, president of the Venezuelan operations, vice president of the Global Aluminum Business Segment, and vice president of the Global Energy Segment. General Cable Corporation is a leader in the development, design,



## **Table of Contents**

manufacture, marketing and distribution of copper, aluminum and fiber optic wire and cable products for the energy, industrial, specialty and communications markets. Mr. Sandoval also has been a director of Grupo Terra since 2014 and serves on its Governance, Finance and Strategy Committees.

Mr. Sandoval brings to our Board the insights of an operating president with a publicly-traded manufacturing company larger than our own. He also has extensive operating and manufacturing experience, as well as broad international experience, particularly in regions where our company has focused its growth plans. Further, he has prior board experience as a member of numerous Phelps Dodge boards, including two international publicly-traded companies. As an added benefit, he brings diversity to our Board.

**BRUCE M. SMITH** Chairman of the Board of Managers and Former Chief Executive Officer, Smith Investment Company LLC; Former Chairman of the Board, President and Chief Executive Officer, Smith Investment Company.

Mr. Smith, 67, has been a director of our company since 1995. He is the Chairperson of the Investment Policy Committee and a member of the Personnel and Compensation Committee and the Nominating and Governance Committee of the Board. He was elected president of Smith Investment Company Inc. ( SICO ) in 1993, and served as chairman and chief executive officer of SICO from 1999 until its merger with our company in 2009. Shares of our Class A Common Stock and Common Stock were SICO's principal asset and represented a controlling position in our company until the merger. Mr. Smith was a director of SICO from 1983 to 1988 and from 1991 to 2009. From 2009 until his retirement in 2012, Mr. Smith also was chief executive officer of Smith Investment Company LLC, an entity that holds all of the assets and liabilities of SICO (other than our Class A Common Stock and Common Stock owned by SICO until the merger). Since 2009, Mr. Smith has been chairman of the board of managers of Smith Investment Company LLC. He was also chief executive officer of Berlin Industries LLC, which was engaged in multicolor printing and related services, from 1996 until its sale in 2011. Further, Mr. Smith is one of three trustees of the Smith Family Voting Trust, which holds a controlling position in the stock of our company. Mr. Smith is a first cousin of Mark D. Smith, also a director of our company. Mr. Smith's daughter, Alexandra Smith, worked with our company in an entry-level human resources position from 2013 until May 2015. Roger S. Smith, brother of director Bruce M. Smith, is a long-standing employee of our company who splits his time between his non-executive position as director-community affairs and at the A. O. Smith Foundation, a charitable organization.

Mr. Bruce Smith has executive level experience in handling the operational activities of SICO, with its diverse businesses. Further, he has practical experience gained through his participation on the board of SICO prior to its merger into our company. Based on his employment with our company earlier in his career and his role as a director for more than 20 years, Mr. Smith is knowledgeable of company history and understands our long-term strategic and tactical plans. Mr. Smith is a member of the Smith family, which holds a controlling interest in the stock of our company.

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

Mr. Smith, 54, has been a director of our 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 and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, and related access control products for major automotive manufacturers. Mr. Smith is a first cousin of Bruce M. Smith, also a director of our company.

Mr. Mark Smith is experienced in managing the operations of a manufacturing business, both at Strattec and previously with our company. Further, an important aspect of his position at Strattec is managing key customer relationships, and he brings this orientation to his service on

## Edgar Filing: SMITH A O CORP - Form DEF 14A

our Board. Mr. Smith is also a member of the Smith family, which holds a controlling interest in the stock of our company.

### NOMINEES COMMON STOCK

**GLOSTER B. CURRENT, JR.** Retired Vice President Corporate Affairs and Assistant to the Chief Executive Officer, Northwestern Mutual Life Insurance Company.

## **Table of Contents**

Mr. Current, 70, has been a director of our company since 2007. He is a member of the Audit Committee of the Board. Mr. Current retired from Northwestern Mutual Life Insurance Company ( NML ) in 2009 as vice president corporate affairs and assistant to the chief executive officer. He previously served as vice president of policyowner services at NML from 2006 to 2007 and as vice president, corporate planning when he joined the company in 2003. NML is the nation's largest direct provider of individual life insurance. Prior to joining NML, he was vice president and chief marketing officer of Lincoln Financial Group from 1995 to 2003. Prior to joining Lincoln Financial Group, Mr. Current held a variety of management and operations assignments with Citibank, Kentucky Fried Chicken, Del Monte Foods and Procter & Gamble.

Mr. Current is proficient in risk management matters, having spent his career in the insurance and banking industries. With his risk management background, he serves on the Audit Committee of our Board. Further, based on his executive responsibilities at NML, Mr. Current brings a focus on customer service to our Board. Mr. Current also has strategic planning experience, both at NML and in his earlier career. In addition, Mr. Current has demonstrated leadership as a director of a non-profit organization, and as chairman of its Nominating and Governance Committee. As an added benefit, Mr. Current brings diversity to our Board.

**WILLIAM P. GREUBEL** Retired Chief Executive Officer and Director, Wabash National Corporation.

Mr. Greubel, 64, has been a director of our company since 2006. He is the Chairperson of the Nominating and Governance Committee and a member of the Personnel and Compensation Committee of the Board. Mr. Greubel was the chief executive officer of Wabash National from 2002 to 2007, and held various director positions with Wabash National, including chairman and executive director, until his retirement as a director in 2009. 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, refrigerated vans, flatbed trailers, drop deck trailers, dry and wet trailers, and intermodal equipment. Mr. Greubel previously was chief executive officer of Accuride Corporation from 1998 until 2002 and president from 1994 until 1998. Mr. Greubel served as a director of Wabash National from 2002 to 2009 and of privately-held Utilimaster Corp. from 2002 to 2009.

Mr. Greubel is an experienced chief executive officer, having held this leadership position at Wabash National and Accuride Corporation. By virtue of this role, he has demonstrated his capability to effectively oversee the overall direction of a publicly-traded company, and to manage a large manufacturing company like ours. Mr. Greubel's experience and guidance in managing corporate restructuring and change in a large organization have been important to our acquisition integration activities.

**IDELLE K. WOLF** Retired President, Barnes Distribution.

Ms. Wolf, 63, has been a director of our company since 2005. She is a member of the Audit Committee of the Board. Ms. Wolf was president of Barnes Distribution from 2006 to 2007 and vice president of Barnes Group Inc. from 2000 to 2007. 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 a leading distributor of maintenance, repair, operating and production supplies with distribution centers in North America, Europe and Asia.

Ms. Wolf has extensive executive level financial and operating experience. She is a Certified Public Accountant with audit experience, and has a thorough knowledge and understanding of generally accepted accounting principles and auditing standards, and how they apply to budgeting and financial reporting systems. Accordingly, Ms. Wolf serves on our Audit Committee and is qualified as an audit committee financial expert under SEC regulations. Ms. Wolf also adds a distribution orientation to our Board, with a thorough understanding of distribution issues and opportunities on a worldwide basis. As an added benefit, Ms. Wolf brings diversity to our Board.

**GENE C. WULF** Retired Director and Executive Vice President, Bemis Company, Inc.

Mr. Wulf, 65, has served as a director of our company since 2003. He is the Chairperson of the Audit Committee of the Board. Until his retirement in 2011, Mr. Wulf served as executive vice president of Bemis



## **Table of Contents**

Company, Inc., where he was responsible for integration of acquisitions, as well as global corporate strategy and information technology. He previously was senior vice president and chief financial officer of Bemis Company, Inc. from 2005 to 2010; was vice president, chief financial officer and treasurer of Bemis Company, Inc., from 2002 through 2005; and was vice president and controller from 1998 to 2002. He also served as a director of Bemis Company, Inc. from 2006 until his retirement in 2011. Bemis Company, Inc. is one of the largest flexible packaging companies in the Americas.

Mr. Wulf is proficient in developing and managing a broad-based financial function and is familiar with financial analytics used to measure business performance in a manufacturing company. He has a thorough knowledge and understanding of generally accepted accounting principles and auditing standards, and how they should be applied to budgeting and financial reporting systems. Based on his experience as a chief financial officer of a public company, he shares his insights as to the best practices at companies like ours. With his strong financial background, Mr. Wulf serves on our Audit Committee and, further, meets the SEC definition of an audit committee financial expert. In addition, he has provided a practical orientation with respect to the business consolidation that our company has undertaken over the last several years.

## **GOVERNANCE OF OUR COMPANY**

### **The Board of Directors**

Our business is managed under the direction and oversight 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 our independent registered public accounting firm and other third parties, by reviewing materials provided to them, and by visiting our offices and plants. During 2015, the Board held six meetings, including one telephonic meeting. The standing Committees of the Board of Directors held a total of 22 meetings, including seven meetings that were conducted telephonically. All directors attended at least 75% of the meetings of the Board and Committees on which they served during 2015. Although we have no formal policy on director attendance, all directors attended our 2015 Annual Meeting of Stockholders, including one who participated telephonically.

The non-management directors of the Board met in executive session without management present six times in 2015. The lead director who presides at such meetings rotates on an annual basis among the chairpersons of the following Committees in the following order: Audit Committee, Nominating and Governance Committee, Personnel and Compensation Committee and Investment Policy Committee. The lead director from April 2015 to April 2016 was William P. Greubel, the Chairperson of the Nominating and Governance Committee. For 2016, the Nominating and Governance Committee designated Ronald D. Brown, the Chairperson of the Personnel and Compensation Committee, as the lead director from April 2016 to April 2017. Any party wishing to communicate with the lead director may send correspondence to the Lead Director, c/o James F. Stern, Corporate Secretary, A. O. Smith Corporation, 11270 West Park Place, P.O. Box 245008, Milwaukee, Wisconsin 53224-9508.

**Director Independence and Financial Literacy.** The Smith Family Voting Trust has the power to elect a majority of our Class A Directors, who make up a majority of the Board. As of December 31, 2015, the Smith Family Voting Trust directly or beneficially owned 95.80% of Class A Common Stock and therefore 95.80% of voting power with respect to the election of the Class A Directors. Since the Board is composed of six Class A Directors and four Common Stock Directors, the Smith Family Voting Trust effectively exercises control over voting power for the election of our directors, and therefore, we are a controlled company under the New York Stock Exchange ( NYSE ) rules. As a controlled company, under NYSE rules, we may choose to not have a majority of independent directors or compensation or governance committees consisting solely of independent directors. Notwithstanding our status as a controlled company, the Board has not elected to exercise the controlled company exemption in any respect because, as described below, we have a Board in which a majority of our members consist of independent directors, and all members of the Audit Committee, Personnel and Compensation Committee and Nominating and Governance

Committee are independent.

## **Table of Contents**

As described in the Corporate Governance Guidelines available on our website, [www.aosmith.com](http://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 evaluates any related party transactions disclosed by directors in the detailed Directors and Officers Questionnaires completed annually by each director. No transactions were above the reporting threshold for related party transactions under SEC rules. In making its recommendations, the Committee also applied the NYSE rules and evaluated any other legal, accounting and family relationships between directors and our company.

The Committee and the Board considered that Bruce Smith's daughter, Alexandra Smith, worked with us in an entry-level position in the Human Resources Department until May 30, 2015, subject to the same terms and conditions as other salaried employees. The Committee and the Board also considered that director Bruce M. Smith's brother, Roger S. Smith, has been a long-standing employee in a non-executive capacity. He splits his time between the Company and the A. O. Smith Foundation, a charitable organization, and is subject to the same terms and conditions of employment as other salaried employees. Further, the Committee and the Board considered that Bruce M. Smith serves as chairman of the board of managers of Smith Investment Company, LLC. During 2015, we provided office space, group insurance coverage and other miscellaneous services to Smith Investment Company LLC, for which we have been reimbursed \$5,500. The Committee and the Board concluded that each of the foregoing relationships was not a material relationship for governance purposes and did not affect Mr. Bruce M. Smith's independence.

Further, the Board and the Committee considered that Ronald D. Brown was a director of Zep Inc., from which one manufacturing facility purchased approximately \$4,375 of certain cleaning supplies in arm's-length transactions prior to his resignation as a director in June, 2015, when Zep, Inc. was acquired by New Mountain Capital. The Committee and Board determined that this relationship was immaterial for governance purposes and did not affect the independence of Mr. Brown.

The Board has determined that Messrs. Brown, Current, Greubel, Sandoval, Bruce M. Smith, Mark D. Smith and Wulf and Ms. Wolf meet the NYSE independence requirements. Mr. Jones is considered a non-management director following his retirement from the Company in 2014. Mr. Rajendra is considered a management director by virtue of his current position as executive officer of our company.

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.

**Board Information and Stockholder Communications.** We are committed to making our corporate governance information accessible to stockholders and other interested parties. Accordingly, on our website, [www.aosmith.com](http://www.aosmith.com), under the Investors heading, and then Governance subheading, we have published the A. O. Smith Corporation Guiding Principles, Financial Code of Ethics, and Stockholder Contacts to Communicate with Directors. Likewise, under Investors, Governance, and then Board of Directors, we have available a list of the Board of Directors and the Charters for the Audit, Investment Policy, Nominating and Governance, and Personnel and Compensation Committees. Further, under the Board Committees and Charters subheading, we have Committee Assignments, Corporate Governance Guidelines, and Criteria for Selecting Board of Director Candidates. Finally, SEC filings, including our Form 10-K, Form 10-Q, Form 8-K, Proxy Statement and Section 16 filings, are available for review on this website under the heading Investors, and then SEC Filings subheading. Stockholders may also request that these documents be mailed by sending their request to the address provided below.

## **Table of Contents**

We encourage communication with our directors. Any interested party may communicate with a particular director, all directors, non-management or independent directors as a group or the lead 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 James F. Stern, Corporate Secretary

A. O. Smith Corporation

11270 West Park Place

P.O. Box 245008

Milwaukee, WI 53224-9508

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

**Compensation Committee Interlocks and Insider Participation.** The members of the Personnel and Compensation Committee are Ronald D. Brown, William P. Greubel, Mathias F. Sandoval and Bruce M. Smith. No member of this Committee serves as a member of a board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board or Personnel and Compensation Committee.

**Procedure for Review of Related Party Transactions.** Potential conflicts of interest must be approved in advance, including related party transactions reportable under SEC rules, or related to the Smith family, in accordance with our Corporate Governance Guidelines. We have a detailed code of conduct, the A. O. Smith Corporation Guiding Principles, which applies to all employees, officers and directors, and specifically addresses conflicts of interest. There has been no waiver of the code of conduct, requested or granted, for any directors or officers. Further, the Corporate Governance Guidelines provide the procedure for review of related party transactions reportable under SEC rules, with approval by the Nominating and Governance Committee required if any such transaction involves a director, executive officer, or his/her immediate family members. Other than the matters identified in Director Independence and Financial Literacy, each of which was reviewed by the Nominating and Governance Committee and the Board and determined to not be material, there have been no related party transactions.

**Potential Director Candidates.** 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 our website by clicking on Investors, then Governance, followed by Board Committees and Charters. To summarize, all candidates should be independent and possess substantial and significant experience which would be of value to our 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 72, absent a waiver approved by the Board. Finally, we believe it appropriate for certain key members of our 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. Although not part of any formal policy, our goal is a balanced and diverse Board, with members whose skills, background and experience are complementary and, together, cover the spectrum of areas that impact our business.

## Edgar Filing: SMITH A O CORP - Form DEF 14A

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 James F. Stern, Corporate Secretary, A. O. Smith Corporation, 11270 West Park Place, P.O. Box 245008, Milwaukee, Wisconsin 53224-9508.

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,

## **Table of Contents**

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 our 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.

## **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. Each standing committee is discussed below.

**Audit Committee.** The Audit Committee consists of four 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 our independent registered public accounting firm. 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 our 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 2015, 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 our 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. As it deems appropriate, the Committee may retain independent consultants to provide recommendations as to executive compensation. The Committee reviews the recommendation of the Nominating and Governance Committee concerning any conflicts involving such consultants and makes a determination as to the independence prior to their retention. The Committee also directs the senior vice president - human resources and public affairs to prepare computations for its consideration, and considers recommendations of the chief executive officer as to compensation of executives other than the chief executive officer. 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 our website. The Committee consists of four directors, all of whom are independent under NYSE rules and have been determined to be independent of any conflict with respect to the Committee's compensation consultant. The Committee held four meetings during 2015. The Personnel and Compensation Committee Report is included as part of this Proxy Statement.

**Investment Policy Committee.** The Investment Policy Committee is responsible for establishing investment policy and certain other matters for all of our qualified 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 our website. The Committee consists of three members. The Investment Policy Committee held four meetings during 2015.

**Nominating and Governance Committee.** The Nominating and Governance Committee oversees our governance processes and procedures, assists the Board in identifying qualified candidates for election as Board members, and establishes and periodically reviews criteria for selection of directors. This Committee reviews our company's and the Board Committees' structures to ensure appropriate oversight of risk. 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 reviews the



**Table of Contents**

independence of consultants to the Personnel and Compensation Committee and makes recommendations to the Personnel and Compensation Committee as to their independence. The Committee also is responsible for reviewing and making recommendations to the Board as to director compensation. 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 our website. The Committee consists of four members, all of whom are independent under the NYSE rules. The Nominating and Governance Committee met three times during 2015. The Report of the Nominating and Governance Committee is included as part of this Proxy Statement.

The table below shows Committee membership and the number of meetings of the full Board and each standing Committee in 2015.

<b>Name</b>	<b>Board</b>	<b>Audit</b>	<b>Personnel and Compensation</b>	<b>Investment Policy</b>	<b>Nominating and Governance</b>
Ronald D. Brown	X		Chair		X
Gloster B. Current, Jr.	X	X			
William P. Greubel	Lead*		X		Chair
Paul W. Jones	X			X	
Ajita G. Rajendra	Chair			X	
Mathias F. Sandoval	X		X		X
Bruce M. Smith	X		X	Chair	X
Mark D. Smith	X	X			
Idelle K. Wolf	X	X			
Gene C. Wulf	X	Chair			
Number of Meetings 2015	6	11	4	4	3

\* Lead director for the period of April 2015 – April 2016

**Our Leadership Structure**

Ajita G. Rajendra holds the combined position of Chairman and Chief Executive Officer. He assumed the role of Chairman in 2014, in addition to his position as Chief Executive Officer and President, which he assumed in 2013. This structure completed a long planned and orderly succession process of our company leadership, as a result of which we have a single strong leader who represents our company. This is the leadership structure that A. O. Smith has traditionally used and, we believe, benefits our stockholders, customers, employees, business partners and other key stakeholders by having a single well recognized and regarded leader.

We believe that this structure strengthens the Company's leadership and does not impair the Board's independence. The members of our Board and the four standing Board Committees provide appropriate oversight. In this regard, the Audit Committee oversees the accounting and financial reporting processes, as well as legal and compliance matters. The Personnel and Compensation Committee oversees the annual performance of our chairman and chief executive officer, as well as our executive compensation program. The Nominating and Governance Committee evaluates independence issues and monitors matters such as the composition of the Board and its Committees, Board performance and best practices in corporate governance. The Investment Policy Committee oversees our investments with respect to benefit plans. Each Committee is led by a chairperson other than the chairman and chief executive officer and, as discussed in more detail in this proxy, the entire



## Edgar Filing: SMITH A O CORP - Form DEF 14A

Board of Directors is actively involved in overseeing our risk management. All together, we believe this framework strikes a sound balance with appropriate oversight.

## **Table of Contents**

Further, we have a lead director who is an independent director and presides at meetings of all non-management directors in executive session. These meetings generally are held in conjunction with most regular Board meetings. In 2015, each in-person Board meeting included a non-management directors session. This allows directors to speak candidly on any matter of interest, without the chairman and chief executive officer or other managers present. In accordance with our Corporate Governance Guidelines, the role of lead director rotates on an annual basis, as opposed to a meeting-by-meeting rotation like some companies, to provide continuity in director oversight. We believe this structure provides consistent and effective oversight of our management and our company.

Our directors bring a broad range of leadership experience to the boardroom and regularly contribute to the thoughtful discussion involved in overseeing the affairs of our company. We believe all Board members are well engaged in their responsibilities, and all Board members express their views and are open to the opinions expressed by other directors. We do not believe that appointing an independent board chairman, or a permanent lead director, would improve the performance of the Board.

### **Consideration of Risk**

Our Board is actively involved in overseeing our risk management. Operational and strategic presentations by management to the Board include consideration of the challenges and risks to our business, and the Board and management actively engage in discussion on these topics. Annually, the Board also reviews and discusses a report from management on risk issues, and also receives more detailed presentations on specific risk topics relevant to our company at three to four Board meetings each year. This report is compiled by senior management and approved by the chief executive officer.

In addition, each of our Board Committees considers risk within its area of responsibility. For instance, our Audit Committee asks management to address a specific critical accounting issue at most of its meetings, and considers the overall impact that the issue has on our financial position and risk profile. In addition, they discuss legal and compliance matters, and assess the adequacy of our risk-related internal controls. Further, the Audit Committee annually surveys the Board and management and, as part of the company's Enterprise Risk Management Program, identifies specific risk topics that the Audit Committee directs be addressed in presentations to the full Board. Likewise, the Personnel and Compensation Committee considers risk and structures our executive compensation programs with an eye to providing incentives to appropriately reward executives for growth without undue risk taking. Each year, the Personnel and Compensation Committee also performs a risk assessment with respect to our executive compensation program. The Investment Policy Committee evaluates the risk and return of our investments and has retained a financial advisor to assist on such matters. The Nominating and Governance Committee annually reviews governance practices with respect to risk and oversight. Additionally, on an annual basis, the Nominating and Governance Committee reviews our company's and Board Committees' structures to ensure appropriate oversight of risk.

Further, our approach to compensation practices and policies applicable to employees throughout our organization is consistent with that followed for executives. In this regard, the Personnel and Compensation Committee analyzed our compensation and, among other things, concluded that no individual business segment carries a significant portion of our risk profile; has significantly different compensation structure from the others; pays compensation expenses as a significant percentage of its revenue, or varies significantly from the overall risk and reward structure of our company. Accordingly, we believe that risks arising from our operating environment and our incentive programs are not reasonably likely to have a material adverse effect on our company.

We benchmark our compensation and benefits packages at all levels of the organization no less than every other year. Base pay, bonus targets and long-term incentives are targeted to market median for each position. Most exempt salaried positions are eligible for participation in bonus programs. For employees in a corporate function, annual incentive programs are based upon attainment of the same Return on Equity targets as our executives. Annual incentive programs at our business segments are based upon attainment of financial and strategic objectives established and approved annually. A limited number of key managers are eligible to participate in a long-term



**Table of Contents**

incentive program that awards stock options and/or restricted stock units in varying amounts based upon position and market comparisons. However, awards normally are subject to at least three-year vesting periods. We feel this combination of base salary, bonus plans tied to critical financial measurements and long-term incentives with three-year vesting periods is balanced and serves to motivate our employees to accomplish our company objectives and retain key employees while avoiding unreasonable risk taking.

**Table of Contents****DIRECTOR COMPENSATION**

Name <sup>1</sup>	Change in Pension Value and Nonqualified Deferred Compensation						
	Fees Earned or Paid in Cash (\$) <sup>2</sup>	Stock Awards (\$) <sup>3,4</sup>	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$) <sup>5</sup>	Total (\$)
Ronald D. Brown	\$ 95,000	\$ 120,049					\$ 215,049
Gloster B. Current, Jr.	86,500	120,049					206,549
William P. Greubel	114,000	120,049					234,049
Paul W. Jones	77,500	120,049					197,549
Mathias F. Sandoval	88,000	120,049					208,049
Bruce M. Smith	112,000	120,049					232,049
Mark D. Smith	86,500	120,049					206,549
Idelle K. Wolf	86,500	120,049					206,549
Gene C. Wulf	105,500	120,049					225,549

1 Mr. Rajendra, as an employee director, receives no compensation for his service as director.

2 Includes amounts earned during 2015, even if deferred.

3 Reflects the grant date fair value of stock awards calculated in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 10 to our 2015 Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Directors receive a stock award of Common Stock as part of their annual retainer. On April 14, 2015, each director received a stock award worth \$110,030, or 1,689 shares valued at \$65.145 per share, which was the adjusted average of the high and low prices on the grant date rounded up to the next whole share. Following the Board's approval of a \$10,000 increase in the stock retainer at its July 14, 2015 meeting, each director received an additional stock award worth \$10,019, or 148 shares valued at \$67.695 per share. Mr. Brown has deferred his receipt of 21,438 shares until his separation from service as a director; Mr. Current has deferred his receipt of 31,958 shares until his separation from service as a director; Mr. Greubel deferred his receipt of 26,127 shares until January 1, 2014, when he commenced his distribution in 5 annual installments, and 4,334 shares until his separation from service as a director; Mr. Sandoval has deferred his receipt of 18,543 shares until his separation from service as a director; Mr. Bruce Smith has deferred his receipt of 19,141 shares until April 1, 2024, 4,029 shares until April 1, 2019, and 31,951 shares until his separation from service as a director; and Ms. Wolf has deferred her receipt of 4,397 shares until her separation from service as a director. Deferred stock holdings include dividends on deferred stock which are paid in the form of restricted stock units.

4 Each director owned as of December 31, 2015 the following aggregate number of shares in connection with service as a director: Mr. Brown, 51,386; Mr. Current, 46,018; Mr. Greubel, 30,461; Mr. Jones, 4,269; Mr. Sandoval, 18,543; Mr. Bruce Smith, 63,067; Mr. Mark Smith, 54,379; Ms. Wolf, 38,048; and Mr. Wulf, 51,209. Please see the Security Ownership of Directors and Management Table for additional information.

5

## Edgar Filing: SMITH A O CORP - Form DEF 14A

None of the directors received perquisites or other personal benefits in an aggregate amount of \$10,000 or more. We reimburse directors for transportation, lodging and other expenses actually incurred in attending Board and Committee meetings.

The Nominating and Governance Committee of the Board of Directors is responsible for reviewing and making recommendations to the Board as to director compensation, which is reviewed annually in July. Non-employee directors are compensated in the form of cash and shares of Common Stock.

In 2015, the Committee reviewed its overall director compensation program in light of the responsibilities and time commitments expected of directors. As part of this process, the Committee considered a Willis Towers Watson assessment of director compensation trends and other information concerning director compensation. After considering this information, the Committee elected to make only one change in 2015, to increase the director's annual stock retainer from \$110,000 to \$120,000, which was effective as of the July 14, 2015 Board meeting.

## **Table of Contents**

Directors receive a cash annual retainer in the amount of \$47,500, paid quarterly, for Board service, and an award of shares of Common Stock with a market value of \$120,000 on the date of the award. The lead director receives an annual retainer of \$20,000. Directors receive \$2,500 for attendance at each Board meeting and the annual stockholders' meeting, plus expenses, and \$1,000 for each telephonic Board and Committee meeting. Each Personnel and Compensation Committee, Nominating and Governance Committee and Investment Policy Committee member receives an annual retainer of \$3,000, with the chairperson of each receiving \$10,000; Committee members also receive \$2,500 per meeting, plus expenses. Each Audit Committee member receives an annual retainer of \$5,000, with the chairperson receiving an annual retainer of \$15,000; Committee members also receive \$2,500 per meeting, plus expenses. Directors who are our employees are not compensated for service as directors or Committee members or for attendance at Board or Committee meetings.

The Board requires that every new director participate in a detailed orientation, including visits to our key operations. This encompasses a review of business and financial operations, meetings with business executives and others, and an overview of our corporate governance policies and procedures. New directors are paid \$2,500 to compensate them for their time devoted to orientation matters.

The stock ownership requirement for directors is the two year average of all cash compensation received by the director, multiplied by five. Each director is required to acquire beneficial ownership of A. O. Smith Corporation Common Stock having an aggregate value equal to this stock ownership requirement within five years of his or her election as a new director. All directors have met this requirement.

Certain directors have elected to defer the payment of their fees and receipt of Common Stock shares under the A. O. Smith Nonqualified Deferred Compensation Plan (the "Deferred Compensation Plan"). The Deferred Compensation Plan allows directors to defer all or a portion (not less than 25%) of their fees until a later date, but not later than the year in which the director ceases service as a director. Payments can be made in a lump sum or in not more than ten annual installments. Under this Plan Ms. Wolf and Mr. Current each deferred payment of certain director fees during 2015. This is handled as a bookkeeping entry, with gains and losses credited to the director's account each month based on the director's crediting election. The crediting election is used to designate the investment fund(s) as the basis for calculating the rate of return equivalent for the director's account. The current funds available for a crediting election are: Principal Global Investors Money Market Division, PIMCO VIT Total Return Division, Principal LifeTime 2010 Division, Principal LifeTime 2020 Division, Principal LifeTime 2030 Division, Principal LifeTime 2040 Division, Principal LifeTime 2050 Division, Principal LifeTime 2060 Division, Principal LifeTime Strategic Income Division, Vanguard VIF Balanced Division, Edge Asset Management, Inc. Equity Income Division, MFS VIT Growth Division, Vanguard VIF Equity Index Division, American Century VP Mid Cap Value Division, Delaware VIP Small Cap Value Division, Janus Aspen Enterprise Division, Templeton Foreign VIP Division, A. O. Smith Stable Value Fund. Ronald D. Brown, Gloster B. Current, Jr., William P. Greubel, Mathias F. Sandoval and Bruce M. Smith have deferred receipt of their stock awards, which consequently are treated as restricted stock units. Dividends on stock which has been deferred as restricted stock units are also received in the form of restricted stock units based on the average of the high and low price of our Common Stock on the date of the dividend.

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

The following table shows, as of December 31, 2015, the Class A Common Stock and Common Stock of our company 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.

<u>Name</u>	<u>Class A Common Stock<sup>1,2</sup></u>	<u>Percent of Class A Common Stock</u>	<u>Common Stock<sup>1,2</sup></u>	<u>Restricted Stock Units</u>	<u>Options Exercisable Within 60 Days</u>	<u>Percent of Common Stock</u>
Ronald D. Brown	0	0	29,948	21,438	0	*
Gloster B. Current, Jr.	0	0	14,060	31,958	0	*
William P. Greubel	0	0	0	30,461	0	*
Paul W. Jones	0	0	186,084	50,100	73,750	*
John J. Kita	0	0	44,223	15,815	28,217	*
Mark A. Petrarca	0	0	42,515	8,785	9,700	*
Ajita G. Rajendra	0	0	159,330	54,000	259,717	*
Mathias F. Sandoval	0	0	0	18,543	0	*
Bruce M. Smith	226,982 <sup>3</sup>	1.73%	9,146 <sup>4</sup>	55,121	0	*
Mark D. Smith	119,866 <sup>5</sup>	*	73,607 <sup>6</sup>	0	0	*
James F. Stern	0	0	83,978	10,915	46,717	*
Kevin J. Wheeler	0	0	4,048	9,030	22,450	*
Idelle K. Wolf	0	0	33,651	4,397	0	*
Gene C. Wulf	0	0	51,209	0	0	*
All 23 Directors, Nominees and Executive Officers as a Group	346,848	2.64%	840,394	356,962	531,391	2.31%

\* Represents less than one percent.

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

2 Shares of Class A Common Stock are convertible on a share-for-share basis into shares of Common Stock at any time at the discretion of each holder. As a result, a holder of shares of Class A Common Stock is deemed to beneficially own an equal number of shares of Common Stock. However, to avoid overstatement of the aggregate beneficial ownership of both classes of our outstanding capital stock, the shares of Class A Common Stock listed in the table do not include shares of Common Stock that may be acquired upon the conversion of outstanding shares of Class A Common Stock. Similarly, the percentage of shares of Common Stock beneficially owned is determined with respect to the total number of outstanding shares of Common Stock, excluding shares of Common Stock that may be issued upon conversion of outstanding shares of Class A Common Stock.

3 Shares beneficially owned as a settler of a revocable family trust.

4 Included in this total are 7,946 shares that have been deferred and 1,200 shares that are beneficially owned as a settler of a revocable family trust.



## Edgar Filing: SMITH A O CORP - Form DEF 14A

- 5 Included in this total are 118,028 shares beneficially owned as a settler of a revocable family trust and 1,838 shares beneficially owned because they are held by his spouse.
- 6 Included in this total are 14,750 shares beneficially owned as a settler of a revocable family trust, 4,478 shares beneficially owned because they are held by his spouse and 54,379 shares held directly by Mark D. Smith.

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

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than ten percent of a registered class of our 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 stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) Forms 3, 4 and 5 which they file.

## **Table of Contents**

Based solely on our review of the copies of such forms we received and written representations from certain reporting persons during fiscal year 2015, we believe that all filing requirements applicable to our executive officers, directors and greater than ten percent beneficial owners were met.

## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

#### **Compensation Philosophy**

We believe that effective executive compensation programs are critical to our long-term success. We have developed compensation programs with the following objectives:

attracting and retaining world-class executives through a total compensation opportunity that is competitive within 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 without encouraging undue risk taking. Incentive plans are designed to recognize and reward accomplishing individual goals, as well as our long-term objectives.

promoting a direct relationship between executive compensation and our stockholder interests.

Our long-term incentive opportunities link a significant portion of executive compensation to our performance through restricted stock unit 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 our Common Stock. Our view is that this stock ownership encourages executive performance but discourages executives from taking undue risk.

We believe executive total compensation opportunity should increase commensurate with responsibility and capacity to influence our results. Additionally, as responsibility and accountability increase, so should the portion of compensation which is at risk. Therefore, not only do base salaries increase with position and responsibility, but short-term and long-term incentive opportunities as a percentage of total compensation increase as well.

Our executive compensation package is designed to strike a balance between short-term cash compensation in the form of fixed salaries and variable annual incentive plans and long-term compensation in the form of cash-based performance units and equity awards with three-year vesting periods. For the chief executive officer, approximately 20% of 2015 total target compensation was comprised of base salary, with the remaining 80% being variable compensation dependent on our company performance. The variable compensation was divided so that approximately 20% of total target compensation was attributable to annual incentive bonus and approximately 60% was long-term incentive compensation. The Committee approved a long-term incentive plan for 2015, which targeted 66% of the chief executive officer's long-term incentives, or approximately 40% of total compensation, as equity-based awards.

For the other named executive officers, approximately 30-40% of total target compensation was comprised of base salary, with the remaining 60-70% being based on our company performance. The only exception is Mr. Wheeler, for whom 70% of his annual variable pay is based on the profitability of his business unit, calculated based on Return on Performance Assets. The variable compensation is structured so that approximately 20-25% of total target compensation represents annual incentive bonus, with roughly 40-45% attributable to long-term incentive compensation. The Committee targeted 66% of the long-term incentives, or approximately 25-30% of total target compensation, as equity-based awards for those other named executive officers.

We believe this combination results in a competitive compensation package that provides an incentive for our executives to lead with a focus on short-term results, while positioning us for long-term sustained performance. With approximately 25-40% of their total compensation tied to equity awards, we believe the decisions of named

## **Table of Contents**

executive officers are aligned with the best interests of our stockholders. We believe this combination of base pay, short-term and long-term incentives supports our objectives of pay-for-performance, while mitigating the potential for undue risk taking because it ties a significant portion of the executive officer's compensation to sustained, long-term performance.

We believe our compensation philosophy is appropriate and aligned with stockholders, as demonstrated by our stock performance. Despite a challenging economic climate, we reported diluted earnings per share from continuing operations of \$3.16 for 2015. We maintained our focus on growing stockholder value and, as shown in the table below, our total stockholder return for 2011 to 2015 significantly exceeded the S&P Midcap 400 Index and that of the Russell 1000 Index.

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

**From December 31, 2010 to December 31, 2015**

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

## **Outside Consultants**

Just as we compete for market share in highly competitive global markets, we compete for talent in equally competitive labor environments. In order to attract and retain critical leadership in these competitive environments, we strive to provide a comprehensive and competitive total compensation package. We utilize the resources of an independent compensation consultant to aid in establishing our programs and to monitor how they compare with the marketplace. Specifically, the Personnel and Compensation Committee ( PCC ) has retained Willis Towers Watson, a leading global executive compensation consulting group, to advise the PCC on market trends relative to executive compensation, provide market data as requested and share input and views on issues being discussed by the PCC.

The PCC has sole authority to approve the independent compensation consultants' fees and terms of engagement on executive compensation matters. The PCC annually reviews its relationship with Willis Towers Watson to ensure its independence on executive compensation matters, taking into account the independence analysis and recommendation of the Nominating and Governance Committee ( NGC ). In making its recommendation, the NGC reviewed the independence of Willis Towers Watson and the individual representatives of Willis Towers Watson who served as the PCC's advisors, considering the following specific factors: (i) other services provided to us by Willis Towers Watson; (ii) fees paid by us to Willis Towers Watson as a percentage of

**Table of Contents**

Willis Towers Watson's total revenue; (iii) policies and procedures maintained by Willis Towers Watson that are designed to prevent a conflict of interest; (iv) any business or personal relationships between the individual representatives of Willis Towers Watson who advised the PCC and any member of the PCC; (v) any shares of our company's common stock owned by the individual representatives; and (vi) any business or personal relationships between our executive officers and Willis Towers Watson or the individual representatives.

We paid Willis Towers Watson \$48,679 of fees in 2015 for consulting services provided to the PCC regarding executive compensation matters. Management subscribes to various Willis Towers Watson compensation databases. Additionally, management utilizes Willis Towers Watson in various consulting capacities related to employee benefits programs and non-executive salaried employee compensation, as well as director compensation benchmarking. The following table sets forth the fees we paid to Willis Towers Watson in 2015 for services other than those provided to the PCC.

Service	Fees
Management Compensation Surveys and Benchmarking	\$7,200
Benefits Consulting Services	\$200,151 paid through credits against commissions earned as broker for life and disability group insurance plans. 2015 year-end credit balance: \$144,135
Director Compensation Analysis	\$1,944

We understand that the Willis Towers Watson personnel who provide advice to us on executive and director compensation matters are separate from and do not provide other compensation services to our company, nor do they serve as our account manager. Other Willis Towers Watson personnel separately provide such other services. The PCC does not approve the services provided by Willis Towers Watson outside the executive compensation advisory role to the PCC but is aware these services are provided.

The PCC concluded, based on the evaluation described above and recommendation from the NGC, that these non-executive compensation services performed by Willis Towers Watson did not raise a conflict of interest or impair Willis Towers Watson's ability to provide independent advice to the PCC regarding executive compensation matters. The PCC's conclusion was based on a representation letter provided by Willis Towers Watson, the limited scope of the other services provided to us by Willis Towers Watson, the small percentage of Willis Towers Watson's revenues represented by the fees paid by us, the separation within Willis Towers Watson between its compensation consulting business and its other businesses, the absence of any conflicting relationships between the individual representatives of Willis Towers Watson who provided advice to the PCC or Willis Towers Watson, on the one hand, and members of the PCC or our executive officers, on the other, and review of director and executive officer responses to our annual Directors' and Officers' Questionnaire.

**Benchmarking**

We endeavor to benchmark our executive compensation against similarly situated executives in comparably sized organizations. We believe we compete for executive resources with other non-financial institutions across multiple industrial segments. With that in mind, our consultants utilize broad-based, general industry salary surveys and regress their data to organizations with \$2.6 billion in revenues. We believe market median is an appropriate target for our total compensation program. We attempt to design both short-term and long-term incentives to produce rewards in excess of median market levels when company performance is better than target. The PCC authorized Willis Towers Watson to perform a detailed analysis of our executive compensation levels in 2015, as we have each year since 2010 because of market volatility.

As described below, the PCC asked Willis Towers Watson to provide input on marketplace trends in executive compensation, and overall compensation and components of compensation for 12 executive positions. Each of the named executive officers was compared at the 50<sup>th</sup>

percentile of market survey data.

## **Table of Contents**

We utilize Willis Towers Watson because we believe its survey resources ensure consistent and statistically valid data that is representative of the market in which we compete for executive talent. Its database includes a broad array of approximately 1,000 companies. After eliminating financial services, health care and energy services, it used approximately 450 companies in the database when benchmarking our positions. We did not rely on a specific sub-group of peer companies within that database. In working with Willis Towers Watson, we played no role in selecting the individual companies for which the data was obtained.

For 2015 compensation, Willis Towers Watson performed a regression analysis to reflect base pay levels of an organization with \$2.6 billion in revenue and reported its findings to the PCC in October 2014. Target bonus and long-term incentives, which are gathered as a percentage of competitive base salary, were determined from all companies in Willis Towers Watson's general industry database with revenues between \$1 billion and \$3 billion. Its comparison focused on overall compensation, as well as base salary, annual incentive bonus, equity awards and each of the other compensation elements discussed below. We believe its methodology provides appropriate comparisons by utilizing industrial companies of comparable size and referencing databases with comparable executive officer positions.

For 2015, the PCC targeted our overall compensation and benefits programs and each element of compensation at the median level of the surveyed companies. Since a number of variables can influence the relationship of an individual executive's pay components to the survey median data, the PCC considers a range of 90% to 110% of median to be appropriate when reviewing total compensation. Although the PCC attempts to have each component of compensation in this target range, the PCC puts greater emphasis on achieving the target at the total compensation level. Variables considered include, but are not limited to, education, position tenure, previous experience, level of performance, additional responsibilities, and, as appropriate, recruitment considerations.

For 2016, we will continue to compare ourselves to the market median of other companies with revenues of \$2.6 billion.

## **Consideration of Stockholder Vote on Executive Compensation**

At our 2015 annual meeting, our stockholders approved the compensation of our named executive officers by over 99% of the votes cast, which is nearly identical to 2014 and previous years. The PCC considered this vote when setting 2016 compensation levels for other executives and, as discussed below, made very few changes to the 2016 program.

## **Role of Executives in Compensation Decisions**

The PCC annually reviews chief executive officer performance and makes recommendations regarding chief executive officer compensation for consideration by the full Board. For 2015, the PCC reviewed and made recommendations to the Board on the compensation of the chief executive officer. The chief executive officer is not present during discussions regarding his compensation, and does not play any role in determining his own compensation. As it deems appropriate, the PCC utilizes the Willis Towers Watson compensation data and directs the senior vice president—human resources and public affairs to prepare computations for its consideration. With respect to other executives, the chief executive officer annually reviews performance and makes compensation recommendations to the PCC. The chief executive officer reviews compensation data provided by Willis Towers Watson, consults with the senior vice president—human resources and public affairs, and considers the individual factors listed above before making his recommendations. The PCC can exercise its discretion to modify any recommended compensation to such executives.

**Compensation Elements**

The PCC takes a balanced approach to executive compensation. Our executive compensation package is comprised of several key components which are designed to work together to provide executives with a total compensation package that is competitive with industry norms. For 2015, total compensation included:

Annual Base Salary



## **Table of Contents**

### Incentives

Short-Term    annual incentive bonus

Long-Term    restricted stock units, stock options and performance units

### Benefits

Executive life insurance

Pension, 401(k) savings plan and post-retirement life insurance

Perquisite allowance

Each of these components of the executive compensation package is discussed below.

## **Base Salary**

Base salary provides the executive with a consistent, market competitive stream of income on a semi-monthly basis. Absent unusual circumstances, we review base salary levels annually, with adjustments effective January 1. The chief executive officer considers each senior executive individually for base salary actions and recommends appropriate adjustments. The PCC annually evaluates the appropriate base salary for the chief executive officer, and reviews and approves his recommendations for the other named executive officers. When considering base salary increases, consideration is given to industry experience, individual performance, level of contribution, pay levels relative to market pay practices, as well as our overall financial condition. While the chief executive officer recommends compensation adjustments for the other named executive officers, his recommendations must be approved and authorized by the PCC. The chief executive officer and the PCC rely upon competitive survey data from Willis Towers Watson and their own diverse experiences with executive compensation when making compensation decisions.

In reviewing and approving individual base salary adjustments for the named executive officers for 2015, the PCC relied upon salary data for comparable positions from the 2014 Willis Towers Watson Executive Compensation Database, which was aged 3% to reflect anticipated market movement from the 2014 survey through year-end 2015. Effective January 1, 2015, the PCC authorized increases of 5.2% to Mr. Rajendra, 16.7% to Mr. Wheeler, 5.1% for Mr. Petrarca, and 5.0% for Messrs. Kita and Stern.

In reviewing 2016 base salaries at its December 2015 meeting, the PCC approved increases of about 2% for the named executive officers. Based upon input from Willis Towers Watson, we believe that the 2016 base salaries for our named executive officers are in the aggregate approximately 107% of the projected market median. This is within our desired target range of 90% to 110%. Further, we anticipate market increase for base salaries to average 2% to 2.5% in 2016, which we took into account in determining 2016 salaries.

Edgar Filing: SMITH A O CORP - Form DEF 14A

<b>Name</b>	<b>2015 Base Salary</b>	<b>2015 Base Salary % to Market Median</b>	<b>January 1, 2016 Base Salary</b>	<b>2016 Base Salary % to Market Median</b>
Ajita G. Rajendra	\$ 980,000	105%	\$ 1,000,000	106%
John J. Kita	522,000	104%	533,000	107%
James F. Stern	486,000	104%	496,000	108%
Kevin J. Wheeler	420,000	102%	429,000	105%
Mark A. Petrarca	420,000	109%	429,000	112%

**Table of Contents****Executive Incentive Compensation**

We include both annual and long-term incentives in our executive compensation package. The goal of our incentive plans is to focus executives on both short-term financial and strategic objectives, while ensuring their commitment to our long-term growth and stability. Our incentive plans tie financial awards to our financial and strategic success and the interests of our stockholders, and provide pay in addition to annual base salary when warranted by corporate financial performance.

**Annual Incentive Compensation**

Each year, the PCC reviews and approves our financial objectives for both the company and its business units. The executive annual incentive bonus is tied to achieving those objectives. The better we perform relative to these objectives, the higher the incentive bonus payment.

The annual target incentive bonus typically is calculated as a percent of annual base pay as of January 1 of the performance year. The target percent for incentive compensation, like base salary, is determined through periodic benchmarking and review of the median level survey data provided by Willis Towers Watson. Annual incentive compensation represents an at risk component of the executive compensation package. Actual incentive bonus amounts are dependent upon performance against specific measurements and, through 2015, may vary from 0% to 200% of targeted amounts.

As a general principle, the portion of an executive's compensation tied to incentive compensation increases with the executive's level of responsibility. Thus, the chief executive officer's annual incentive opportunity is greater than that of the other named executive officers. We targeted an annual incentive opportunity for the chief executive officer at 105% of base pay in 2015 based upon Willis Towers Watson survey data for comparably situated executives. The relationship of our incentive targets to market median comparisons is illustrated in the following table.

<b>Name</b>	<b>2015 Target % of Base Salary</b>	<b>Target Incentive % to Market Median</b>
Ajita G. Rajendra	105	95
John J. Kita	70	100
James F. Stern	67	105
Kevin J. Wheeler	67	97
Mark A. Petrarca	57	102

The 2015 annual incentive plan for all corporate executives was based on achieving a target financial measure of 16.40% Return on Equity, which the PCC established at its February, 2015 meeting based upon historical performance, its assessment of the 2015 business plan, the competitive environment and overall performance objectives. Return on Equity is calculated by dividing net income by stockholder equity, adjusted to exclude certain extraordinary or nonrecurring items, as provided for in the 2015 annual incentive plan. We use Return on Equity as the basis for determining annual incentive compensation for corporate executives because we believe it represents a sound measure of our performance that is easily recognized and readily used by investors and that links executive performance to stockholder interests. For Mr. Wheeler, who is a business unit executive, we used two components: Return on Equity of 16.40% and business unit performance based on meeting an internal financial objective, Return on Performance Assets, at the business unit.

Return on Performance Assets is calculated by dividing the business unit's operating earnings before interest and taxes by total business unit's net assets excluding cash and equivalents, debt and income tax accounts. This calculation emphasizes asset optimization and, therefore, is a better indicator of return on our investment at the business unit level. Seventy percent (70%) of the incentive opportunity for Mr. Wheeler was contingent upon achieving the Return on Performance Assets financial goal, with the balance linked to our company achieving its Return on Equity goal.

**Table of Contents**

We reported record earnings in 2015 and achieved 156.5% of the corporate Return on Equity incentive bonus target and 200% of the Return on Performance Assets target. Accordingly, the named executive officers were awarded incentive compensation bonuses set forth in the table below.

**2015 Annual Incentive Awards**

<b>Name</b>	<b>Amount</b>
Ajita G. Rajendra	\$ 1,611,000
John J. Kita	572,000
James F. Stern	510,000
Kevin J. Wheeler	527,000
Mark A. Petrarca	375,000

**Long-Term Incentive Compensation**

Long-term incentive compensation consists of stock options, restricted stock units and performance units, all of which are focused on ensuring sustained performance over a multi-year period. We believe strongly that equity-based long-term incentives effectively link the interests of senior management to the interests of our stockholders. The allocation of total value between each of the long-term incentive components may vary from year-to-year based on our focus, as determined by the PCC. The long-term incentive portion of an executive's compensation is at risk and is dependent upon corporate performance and growth in stock value.

The stated purpose of the Combined Incentive Compensation Plan, which is the vehicle for awarding long-term incentives, is to provide compensation as an incentive to induce key employees to remain in our employ and to encourage them to secure or increase their stock ownership in our company or to otherwise align their interests with our stockholders. The Combined Incentive Compensation Plan motivates behavior through growth-related incentives to achieve long-range revenue and profitability goals.

The total target value of all long-term incentive components is compared to comparable positions in the marketplace. Again, the PCC utilizes Willis Towers Watson to assist in benchmarking against the median level of surveyed companies to determine market competitive long-term incentive targets for executive positions.

Based upon the analyses provided by Willis Towers Watson in October 2015, long-term incentive grants to our named executive officers were valued in the aggregate at 96% of market median.

The following table shows long-term incentive grants to named executive officers in 2015, and compares such grants to market median.

<b>Name</b>	<b>2015 Long-Term</b>	<b>% to October 2015 Market</b>
-------------	---------------------------	-------------------------------------

	Incentives Target Value	Median
Ajita G. Rajendra	\$ 2,750,000	93%
John J. Kita	760,000	96%
James F. Stern	550,000	103%
Kevin J. Wheeler	500,000	94%
Mark A. Petrarca	415,000	107%

**Emphasis on Performance-Based Awards**

Our consistent approach since 2008 is to structure our awards so that restricted stock units represent 33% of our long-term incentive awards, stock options 33%, and performance units 34%. All of these long-term awards are performance-based.

**Table of Contents**

Restricted stock units entitle the executive to receive a share of Common Stock for each unit when the restricted stock unit vests. Restricted stock units are time-based, but have a minimum performance threshold based on Average Return on Equity that must be achieved in order to vest. The Average Return on Equity is calculated by dividing net income by stockholder equity, adjusted to exclude certain extraordinary and non-recurring items, averaged over the three-year vesting period. We use Average Return on Equity because we believe it represents a sound measure of our performance that is easily recognized and readily used by investors and that links executive performance to stockholder interest over the three-year performance period of the award. The value to the executive of restricted stock units is dependent upon the value of our Common Stock at the time of vesting. Restricted stock units are used to provide a combination of retention value and incremental performance incentives. For 2015, the minimum Average Return on Equity for restricted stock unit payouts was 5%.

Stock options granted through the Combined Incentive Compensation Plan are valued at fair market value on the day of the grant, which is calculated by averaging the high and the low trading prices of our Common Stock on the NYSE on the day of the grant. The value of options to an executive is entirely dependent upon the growth of our stock price over the option price. Under the terms of the Combined Incentive Compensation Plan, options may not be repriced once granted. Stock options are used to incent higher stock prices and incremental stockholder value creation, as no value is realized unless the stock price increases above the grant price.

The PCC elected to continue to use Return on Invested Capital as a percent of the Cost of Capital as the performance measure for performance units in 2015. We believe Return on Invested Capital represents a sound measure of how effectively executives manage capital. The goal is to achieve Return on Invested Capital as a percent of the Cost of Capital at or above 100%. Performing at this level means we are maintaining or creating additional stockholder value. We calculate Return on Invested Capital by taking net operating profit after taxes and dividing it by total capital. As with annual incentive compensation objectives, the PCC sets targets at levels that are difficult to achieve, but with the expectation they are attainable.

Performance units are valued at the time of grant at \$100. Their value to the executive is dependent upon Return on Invested Capital performance as a percent of the Cost of Capital over a three-year vesting period. For 2015, the PCC continued the performance/payout relationship previously implemented. We must earn 100% Return on Invested Capital as a percent of the Cost of Capital during the measurement period in order for executives to achieve a minimum payout under the plan. At 100% performance, executives will earn 50% of their target value. Target value payouts will be earned at 199% performance over the course of the measurement period and a maximum payout of 200% of target will be earned should we return 398% Return on Invested Capital as a percent of the Cost of Capital between January 1, 2015 and December 31, 2017.

ROIC Achieved as a % of	
Cost of Capital	2015 Plan Payout
100%	50% - Minimum
199%	100% - Target
398%	200% - Maximum

Through December 2015, which includes one year of the three-year performance period, the performance units granted in February 2015 had an estimated value of approximately 167.4% of their target value. Through December 2015, which includes two years of the three-year performance period, the performance units granted in February 2014 had an estimated value of approximately 152.6% of their target value.

At target, the combined value of the three components of executive long-term incentives (stock options, restricted stock units and performance awards) should represent market median long-term incentive awards consistent with the Willis Towers Watson survey. Based upon the PCC's October 2015 analysis, target long-term incentives for our named executive officers compared to market median are reflected on the table on

page 26.

**Payout of 2013-2015 Performance Awards**

Performance units awarded in February 2013 for the period 2013-2015 were paid in February 2016. These awards were based upon the Return on Invested Capital ( ROIC ) as a percent of the Cost of Capital for the three-



**Table of Contents**

year period (2013-2015). The units originally were valued at \$100 per share. Based upon our performance during the measurement period, our ROIC exceeded the Cost of Capital by over 269%, which resulted in the units being paid out at \$172.50 per share.

**Timing of Awards**

Long-term incentive grants are awarded annually in February, shortly after earnings are released for the prior year. During its December, 2014 meeting, the PCC approved a resolution granting the Chief Executive Officer the authority to implement mid-year equity grants as they relate to senior management employee promotions and new hires in order to align them as quickly as possible to stockholder interests and to make equity adjustments if circumstances warrant. This authority does not include mid-year grants for executive officers.

**Share Ownership Guidelines**

We have developed share ownership guidelines requiring minimum levels of Common Stock accumulation and ownership, depending on the executive's position. Current ownership guidelines applicable to current named executive officers are as follows:

<b><u>Executive</u></b>	<b><u>Guideline</u></b>
	<b>(Multiple of salary</b>
	<b>range midpoint)</b>
Ajita G. Rajendra	5X
John J. Kita	3X
James F. Stern	3X
Kevin J. Wheeler	3X
Mark A. Petrarca	3X

These ownership guidelines are targeted to be competitive with comparable positions in the marketplace. They also are intended to align executive interests with those of our stockholders. The PCC periodically monitors ownership guidelines to ensure they are consistent with the market, and makes adjustments as appropriate. Executives are expected to achieve these ownership guidelines within a reasonable period of time after becoming an executive at our company. Once achieved, the level of ownership must be maintained. Including granted but unvested restricted stock units, all named executive officers are in compliance with the ownership guidelines, except for Kevin J. Wheeler, who became a named executive officer in 2014. Mr. Wheeler is on track to reach the ownership guideline within a reasonable period of time.

**Consideration of Risk in Executive Compensation Plans**

We believe our total compensation package mitigates unreasonable risk-taking by our senior executives. In this regard, we strike a balance between short-term and long-term cash and equity awards. A significant portion of our executives' pay is linked to the achievement of financial goals directly aligned to stockholder interests: Return on Equity and Return on Invested Capital as a percent of the Cost of Capital. The competitive annual incentive plan rewards executives for achieving short-term performance targets, which keeps them focused on day-to-day business fundamentals. On the other hand, our long-term cash and equity awards incent executives to take a long-term view of our company and to assume reasonable risks to develop new products, explore new markets and expand existing business.

Further, our executives are stockholders with established share ownership guidelines requiring them to acquire and hold A. O. Smith stock. Their stock grants vest over three-year periods so they are incented to build stockholder value over time. Their cash performance units also are subject to vesting over a three-year period and their payout is tied to Return on Invested Capital over the same period of time.

Our performance-based pay components are tied to company-wide results. We have implemented caps on our annual cash incentive plan and our long-term performance units. Our equity programs limit and define the number of shares, but the value of the award is determined by the stock market at the time they vest or are exercised, which we believe provides a strong connection with stockholder interests.

## **Table of Contents**

The PCC reviewed the company's annual and long-term incentive plans at the PCC's July 2015 meeting. As a result of its review, the PCC concluded that our program is unlikely to place the company at material risk. In this regard, several of our current practices effectively mitigate risk and promote performance.

As part of this process, the PCC reviewed the risk assessment process conducted by Willis Towers Watson at the PCC's direction and discussed with Willis Towers Watson any changes over the last year that could impact risk. The PCC concluded that no plan changes were implemented in 2015 that would affect the existing risk profile of any of the plans.

In addition, we have implemented an executive compensation reimbursement policy, requiring the executives to reimburse incentive compensation erroneously awarded in certain circumstances in the event of a material restatement, commonly called a clawback. We believe this policy, discussed in greater depth in the Section of the Compensation Discussion and Analysis entitled, "Executive Compensation Reimbursement Policy," mitigates the risk of a financial restatement by ensuring that our executive officers continuously monitor and maintain the accuracy of our reported financial results.

## **Executive Life Insurance**

The A. O. Smith Executive Life Insurance Plan is a program intended to provide income security for a named beneficiary in the event of death. The plan generally provides a market-competitive life insurance benefit equal to three times the executive's annual base salary during employment and one times the annual base salary after retirement. We may at our discretion transfer ownership of the post-retirement policy equivalent of one times annual base salary to an executive upon retirement.

## **Executive Pension**

The retirement plans provided to our executives are consistent with our philosophy of providing competitive retirement benefits for all employees in order to attract and retain critical talent, as well as ensure a secure retirement for employees who contributed to our success over a sustained period of time.

Executive pension benefits are provided in one of two ways, depending on when the executive became eligible. One is through a qualified defined benefit plan, the A. O. Smith Retirement Plan, which closed to new entrants on January 1, 2010 and which stopped accruing benefits for participants on December 31, 2014. For executives hired or promoted into a qualifying executive position prior to July 2010, this defined benefit plan is complemented by a non-qualified supplemental retirement plan. Executives hired or promoted into a qualifying executive position after July 2010 do not participate in the existing supplemental executive retirement plan, but are eligible to participate in a defined contribution restoration plan described in the "Defined Contribution Retirement Savings Plan" section below.

A detailed discussion of terms of the defined benefit plans follows the "Pension Benefits" Table.

## **Defined Contribution Retirement Savings Plan**

We have a defined contribution plan, the A. O. Smith Retirement Security Plan, for all U.S. salaried employees, including the named executive officers. The plan is structured as a 401(k) plan with a 100% match on the first 1% of employee savings and a 50% match on the next 5% of employee savings. We provide a company contribution under the A. O. Smith Nonqualified Deferred Compensation Plan to executives who contributed the maximum eligible tax-deferred employee contributions allowed by law to the 401(k) Plan. The amount of the company contribution to the executive under the Nonqualified Deferred Compensation Plan is the difference between the match the executive would have received without the restrictions placed on compensation eligible for contributions to the 401(k) plan by the Internal Revenue Code and the actual match received under the 401(k) plan.

The A. O. Smith Retirement Security Plan also provides an annual non-matching company contribution to employee 401(k) accounts of 3% of employee base salary and bonus up to the compensation limits specified in the

**Table of Contents**

Internal Revenue Code. This non-matching contribution was introduced as of January 1, 2015, at the time employees ceased accruing benefits under the A. O. Smith Retirement plan. Under the defined contribution restoration plan, executives who are not eligible for the supplemental executive retirement plan receive an annual company contribution under the A. O. Smith Nonqualified Deferred Compensation Plan of 3% of pay (base plus bonus) based on pay above the Internal Revenue Service pay limit. Mr. Wheeler is the only named executive participating in the defined contribution restoration plan.

A discussion of the A. O. Smith Nonqualified Deferred Compensation Plan, under which executives may elect to defer all or part of their salary, annual incentive bonus or restricted stock units, follows the Nonqualified Deferred Compensation Table.

**Executive Perquisites**

We provide a perquisite allowance to our senior executives, paid semi-monthly. The PCC feels these perquisite allowances reflect current market practices and are an important element of the total compensation package which serves to attract and retain critical executive talent. Perquisite allowances for the named executive officers are:

<b><u>Executive</u></b>	<b><u>Annual Allowance</u></b>
Ajita G. Rajendra	\$60,000
John J. Kita	40,000
James F. Stern	40,000
Kevin J. Wheeler	40,000
Mark A. Petrarca	35,000

In addition to the perquisite allowance, executives may receive executive physicals, reimbursement for spousal travel to Board or executive meetings for business purposes, including, on an infrequent basis, spousal travel on the corporate aircraft for such meetings, occasional tickets to sporting events and other items of incidental value.

**Executive Agreements**

The named executive officers participate in the A. O. Smith Senior Leadership Severance Plan (the Plan), which protects executives financially in the event of employment termination in circumstances identified in the Plan, including a change in control of our company. These protections help to ensure that executives will remain focused on managing our company in the event of a pending change in control or other circumstances. Furthermore, this Plan provides a more attractive compensation package when recruiting key talent. Lastly, instead of negotiating individual separation arrangements upon a termination, the PCC can ensure consistent and equitable treatment for all executives.

The Plan provides each executive with a cash severance (represented as a multiple of their annual cash compensation), medical benefit continuation and outplacement services. Additionally, vesting of long-term incentive awards is accelerated in certain cases. To be covered by the Plan, an executive must sign a noncompete, nonsolicitation, assignment of inventions and confidentiality agreement. To receive these benefits, an executive must sign a release from future claims against our company. The Plan also provides for enhanced cash severance benefits upon a change in control, as discussed below.

Additionally, as an inducement to hire, Mr. Rajendra requested and was provided with a pension supplement which is described in more detail in the compensation tables and narrative section of this disclosure. This pension supplement was intended to replace benefits he forfeited in order to join us.

#### **Tax Considerations**

The PCC considers its primary goal to be the design of compensation strategies that further the economic interests of our company and stockholders. The PCC intends to deliver executive compensation programs in a

## **Table of Contents**

manner that is tax-effective (for Section 162(m) and other purposes) for our company and employees to the extent practicable. In certain cases, the PCC may determine that the amount of tax deductions lost is insignificant when compared to the potential opportunity a compensation program provides for creating stockholder value. The PCC therefore retains the ability to pay appropriate compensation even if it may result in the nondeductibility of certain compensation.

## **Executive Compensation Reimbursement Policy**

The PCC has implemented a requirement that executive officers who receive payments of performance-based awards (annual or long-term incentive awards, stock-based awards, and any other form of cash or equity compensation other than salary) must, upon request of the PCC, reimburse us for those payments where, (1) the payments were based on the achievement of certain financial results during a specified performance period; (2) the financial results were subsequently subject to a material restatement; and (3) the restatement resulted from material noncompliance with financial reporting requirements under applicable laws. For 2016, the PCC revised award agreements to also provide for reimbursement in the PCC's discretion when an executive officer has direct knowledge of conduct that is materially adverse to our company, including conduct that could warrant dismissal or is a violation of our Guiding Principles code of conduct, or any law, regulation or listing standard, regardless of whether we learn of the conduct before or after the executive officer's termination of employment. In those circumstances, we may obtain reimbursement, or clawback, of any amount by which the payment of the award to the executive officer exceeds the lower payment that would otherwise have been made to the executive officer based on the restated financial results, or an amount equal to the financial, reputational or other harm incurred by our company as a result of the materially adverse conduct. If the clawback arises from a material restatement of our financial results, we will not seek reimbursement of payments of awards where the payment was made more than three years before the occurrence of the restatement. If the clawback relates to knowledge of materially adverse conduct, there is no time limit imposed in the award agreements on our reimbursement rights.

The PCC believes that implementing this reimbursement requirement for all awards issued under our various incentive plans, including our Combined Incentive Compensation Plan, is important to help ensure that our executive officers continuously monitor and maintain the accuracy of our reported financial results and comply with all regulations, and our code of conduct. Further, the PCC believes that this reimbursement requirement aligns our executive officers' compensation with our interests in ensuring full compliance with financial reporting requirements to which we are subject as a public company and our commitment to conduct business in compliance with all legal requirements and our Guiding Principles. We believe the reimbursement requirement will further align our executive compensation programs with our core compensation philosophy and objectives by tying payments on performance awards and annual incentive compensation to actual achieved financial results of our company and our culture of compliance. This will further serve our long-term objective of aligning compensation of our executive officers with the interests of our stockholders.

**Table of Contents****SUMMARY COMPENSATION TABLE**

The Summary Compensation Table reflects information concerning compensation awarded to, earned by or paid to our chief executive officer, chief financial officer and other named executive officers during fiscal years 2015, 2014, and 2013.

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)<sup>1</sup></b>	<b>Bonus (\$)</b>	<b>Stock Awards (\$)<sup>2</sup></b>	<b>Option Awards (\$)<sup>3</sup></b>	<b>Non-Equity Incentive Plan Compensation (\$)<sup>4</sup></b>	<b>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)<sup>5</sup></b>	<b>All Other Compensation (\$)<sup>6</sup></b>	<b>Total (\$)</b>
Ajita G. Rajendra Chairman, President and Chief Executive Officer	2015	\$ 980,000	0	\$ 907,568	\$ 907,465	\$ 2,904,750	\$ 1,160,115	\$ 150,376	\$ 7,010,274
	2014	932,000	0	857,372	857,672	1,981,000	1,900,662	133,715	6,662,421
	2013	850,000	0	726,388	727,102	1,687,500	1,082,667	256,837	5,330,494
John J. Kita Executive Vice President and Chief Financial Officer	2015	522,000	0	250,119	250,018	986,000	971,570	82,196	3,061,903
	2014	497,000	0	239,321	239,023	838,000	1,560,085	76,824	3,450,253
	2013	482,500	0	230,489	231,577	619,000	756,607	71,789	2,391,962
James F. Stern Executive Vice President, General Counsel and Secretary	2015	486,000	0	182,436	182,471	786,000	234,448	75,490	1,946,845
	2014	462,900	0	164,969	164,587	693,000	410,594	92,114	1,988,164
	2013	449,400	0	153,659	156,875	695,500	145,231	65,467	1,666,132
Kevin J. Wheeler Senior Vice President, President, North America, India, Europe and Export	2015	420,000	0	164,900	164,962	699,500	0	82,554	1,531,916
	2014	360,000	8,000	164,969	164,587	325,000	144,570	56,918	1,224,044
Mark A. Petrarca Senior Vice President, Human Resources and Public Affairs	2015	420,000	0	137,520	137,497	607,875	234,553	69,113	1,606,558
	2014	399,500	0	137,087	137,294	519,000	548,919	61,104	1,802,904
	2013	387,800	0	125,721	129,484	531,000	130,629	64,729	1,369,636

<sup>1</sup> Includes amounts earned in 2015, even if deferred.

<sup>2</sup> The amounts included in the Stock Awards column are the aggregate grant date fair value of stock awards granted during a year calculated in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 10 to our 2015 Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.



## Edgar Filing: SMITH A O CORP - Form DEF 14A

- <sup>3</sup> The amounts included in the Option Awards column are the aggregate grant date fair value of stock options granted during a year calculated in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 10 to our 2015 Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.
- <sup>4</sup> Reflects the annual incentive bonus for 2015 and performance units for the period 2013 to 2015, which respectively for each named executive officer are as follows: Mr. Rajendra, \$1,611,000 and \$1,293,750; Mr. Kita, \$572,000 and \$414,000; Mr. Stern, \$510,000 and \$276,000; Mr. Wheeler, \$527,000 and \$172,500, and Mr. Petrarca, \$375,000 and \$232,875.
- <sup>5</sup> Reflects the change in pension value for each named executive officer. The actuarial present value of the pension value for Mr. Wheeler decreased from December 31, 2014 to December 31, 2015 by \$16,994. Pursuant to SEC rules, the amount of this decrease is not reflected in the sum shown. As permitted by SEC rules, the amount shown for Mr. Wheeler reflects the net change in the actuarial present value of his pension benefit under these plans. This change in the present value results from the actuarial method and interest rate assumptions used for financial accounting purposed to calculate the current value of a future pension benefit payout. For 2015, the decrease in the actuarial present value of pension benefit for the indicated named executive is primarily attributable to increased interest rate assumptions and an increased discount rate used to calculate the present value of this benefit.
- <sup>6</sup> Additional information regarding other compensation as provided in the Components of 2015 All Other Compensation Table below.

**Table of Contents****COMPONENTS OF 2015 ALL OTHER COMPENSATION**

<b>Name</b>	<b>Company Contributions to Retirement and 401(k) Plans (\$) <sup>1</sup></b>	<b>Dividends on Restricted Stock and Stock Units (\$) <sup>2</sup></b>	<b>Perquisite Allowance (%) <sup>3</sup></b>	<b>Other (%) <sup>4</sup></b>	<b>Total (%)</b>
Ajita G. Rajendra	\$ 42,250	\$ 41,506	\$ 60,000	\$ 6,620	\$ 150,376
John J. Kita	26,220	13,033	40,000	2,943	82,196
James F. Stern	24,960	8,948	40,000	1,582	75,490
Kevin J. Wheeler	34,110	6,848	40,000	1,596	82,554
Mark A. Petrarca	22,650	7,202	35,000	4,261	69,113

<sup>1</sup> Amounts shown are company 401(k) plan matching contribution and contribution to the A. O. Smith Nonqualified Deferred Compensation Plan. For 2015, each officer received a \$9,275 company 401(k) plan matching contribution, a \$7,950 company 401(k) plan non-matching contribution and the following Nonqualified Deferred Compensation Plan contributions: Mr. Rajendra, \$25,025; Mr. Kita, \$8,995; Mr. Stern, \$7,735; Mr. Wheeler, \$16,885; and Mr. Petrarca, \$5,425.

<sup>2</sup> Dividends on deferred restricted stock and restricted stock units are credited to the executive officer's account in the A. O. Smith Nonqualified Deferred Compensation Plan.

<sup>3</sup> Executive officers receive a single perquisite allowance, as discussed in greater depth in the Executive Perquisites section of the Compensation Discussion and Analysis.

<sup>4</sup> Amounts shown include payments for life insurance premiums for all named executive officers, executive physicals, if taken, and spousal travel to Board or executive meetings for business purposes.

**Table of Contents****GRANTS OF PLAN-BASED AWARDS**

The table below reflects the plan-based awards made under the Combined Incentive Compensation Plan to each of the named executive officers during 2015.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares or Units (#) <sup>1</sup>	All Other Option Awards: Number of Securities Underlying Options (#) <sup>2</sup>	Exercise or Base Price of Option Awards (\$/Sh) (\$) <sup>3</sup>	Grant Date Fair Value of Stock and Option Awards (\$) <sup>4</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Ajita G. Rajendra	2/9/2015 <sup>5</sup>	\$ 2,675	\$ 1,029,000	\$ 2,058,000	N/A	N/A	N/A				
	2/9/2015 <sup>6</sup>	467,500	935,000	1,870,000							
	2/9/2015								52,865	\$ 61.530	\$ 907,465
	2/9/2015							14,750			907,568
John J. Kita	2/9/2015 <sup>5</sup>	950	365,400	730,800	N/A	N/A	N/A				
	2/9/2015 <sup>6</sup>	129,250	258,500	517,000							
	2/9/2015								14,565	61.530	250,018
	2/9/2015							4,065			250,119
James F. Stern	2/9/2015 <sup>5</sup>	846	325,620	651,240	N/A	N/A	N/A				
	2/9/2015 <sup>6</sup>	93,500	187,000	340,000							
	2/9/2015								10,630	61.530	182,471
	2/9/2015							2,965			182,436
Kevin J. Wheeler	2/9/2015 <sup>5</sup>	219	281,400	562,800	N/A	N/A	N/A				
	2/9/2015 <sup>6</sup>	85,000	170,000	340,000							
	2/9/2015								9,610	61.530	164,962
	2/9/2015							2,680			164,900
Mark A. Petrarca	2/9/2015 <sup>5</sup>	622	239,400	478,800	N/A	N/A	N/A				
	2/9/2015 <sup>6</sup>	70,500	141,000	282,000							
	2/9/2015								8,010	61.530	137,497
	2/9/2015							2,235			137,520

<sup>1</sup> Shows the number of restricted stock units granted to each named executive officer in 2015 under the Combined Incentive Compensation Plan. Restricted stock units vest on February 9, 2018 (three years from grant date), except in the event of dismissal or voluntary resignation prior to vesting, if not retirement eligible. The grant date fair value of these awards was \$61.530 per restricted stock unit, based upon the average of the highest and lowest price on the date of grant. Dividends on restricted stock and restricted stock units are credited to the named executive officer's account in the Executive Supplemental Profit Sharing Plan.

<sup>2</sup> Shows the number of stock options granted to each named executive officer in 2015 under the Combined Incentive Compensation Plan. Options vest and become exercisable in three equal installments. For options granted in February 2015, they partially vest beginning February 9, 2016, one year after the grant date. Vested options may be exercised within 90 days of voluntary termination.

<sup>3</sup> The exercise price is the average of the highest and lowest price on the effective date of grant.

## Edgar Filing: SMITH A O CORP - Form DEF 14A

- <sup>4</sup> The value of the restricted stock units and stock option awards are the aggregate grant date fair value of restricted stock units and stock options granted during a year calculated in accordance with FASB ASC Topic 718.
- <sup>5</sup> Amounts reflect the threshold, target, and maximum awards that each named executive officer can earn under the Combined Incentive Compensation Plan for annual incentive bonus for 2015.
- <sup>6</sup> Amounts reflect the threshold, target and maximum awards that each named executive officer can earn under the Combined Incentive Compensation Plan as performance units for the period 2015 to 2017. Performance units have a value of \$100 per unit at time of grant. The actual value of performance units is dependent upon Return on Invested Capital performance over the three-year vesting period, as more fully explained under Compensation Discussion and Analysis Long-Term Incentive Compensation.

No named executive officer at our company has an employment agreement for a specific period of time. Rather, all executives serve at the pleasure of the Board. Each named executive officer participates in the Senior Leadership Severance Plan. See the discussion entitled, Employment Contracts, Termination of Employment and Change in Control Arrangements for additional information.

**Table of Contents**

Further, Mr. Rajendra has a pension agreement, which is reviewed in the discussion following the Pension Benefits Table. Otherwise, his compensation is consistent with the policies and practices discussed in the Compensation Discussion and Analysis.

Table of Contents

## OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2015

The table below reflects all outstanding equity awards made under the Combined Incentive Compensation Plan to each of the named executive officers.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable <sup>1</sup>	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested <sup>2</sup>	Market Value of Shares or Units of Stock That Have Not Vested <sup>3</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested <sup>3</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested <sup>3</sup>
Ajita G. Rajendra	33,600	0	0	\$ 11.880	02/11/18	20,800	\$ 1,593,488	0	0
	63,900	0		9.502	02/09/19	18,450	1,413,455		
	31,800	0		13.965	02/08/20	14,750	1,129,998		
	26,200	0		21.558	02/07/21				
	48,000	0		22.985	02/13/22				
	38,933	19,467		34.923	02/11/23				
	17,284	34,566		46.470	02/10/24				
	0	52,885		61.530	02/09/25				
John J. Kita	11,000	0	0	22.985	02/13/22	6,600	505,626	0	0
	12,400	6,200		34.923	02/11/23	5,150	394,542		
	4,817	9,633		46.470	02/10/24	4,065	311,420		

# Edgar Filing: SMITH A O CORP - Form DEF 14A

	0	14,565	61.530	02/09/25					
James F. Stern	17,000	0	0	21.558	02/07/21	4,400	337,084	0	0
	18,000	0		22.985	02/13/22	3,550	271,966		
	8,400	4,200		34.923	02/11/23	2,965	227,149		
	3,317	6,633		46.470	02/10/24				
	0	10,630		61.530	02/09/25				
Kevin J. Wheeler	2,800	0	0	13.965	02/08/20	2,800	214,508	0	0
	4,000	0		21.558	02/07/21	3,550	271,966		
	7,000	0		22.985	02/13/22	2,680	205,315		
	5,333	2,667		34.923	02/11/23				
	3,317	6,633		46.470	02/10/24				
	0	9,610		61.530	02/09/25				
Mark A. Petrarca	6,933	3,467	0	34.923	02/11/23	3,600	275,796	0	0
	2,767	5,533		46.470	02/10/24	2,950	226,000		
	0	8,010		61.530	02/09/25	2,235	171,223		

<sup>1</sup> All references to shares mean shares of the company's Common Stock. Mr. Rajendra will have the right to exercise an option for 19,467 shares at the exercise price of \$34.923 on February 11, 2016; 17,284 shares at the exercise price of \$46.470 on February 10, 2016; 17,283 shares at the exercise price of \$46.470 on February 10, 2017; 17,622 shares at the exercise price of \$61.530 on February 9, 2016; 17,621 shares at the exercise price of \$61.530 on February 9, 2017; and 17,622 shares at the exercise price of \$61.530 on February 9, 2018. Mr. Kita will have the right to exercise an option for 6,200 shares at the exercise price of \$34.923 on February 11, 2016; 4,816 shares at the exercise price of \$46.470 on February 10, 2016; 4,817 shares at the exercise price of \$46.470 on February 10, 2017; 4,855 shares at the exercise price of \$61.530 on February 9, 2016; 4,855 shares at the exercise price of \$61.530 on February 9, 2017; and 4,855 shares at the exercise price of \$61.530 on February 9, 2018. Mr. Stern will have the right to exercise an option for 4,200 shares at the exercise price of \$34.923 on February 11, 2016; 3,316 shares at the exercise price of \$46.470 on February 10, 2016; 3,317 shares at the exercise price of \$46.470 on February 10, 2017; 3,544 shares at the exercise price of \$61.530 on February 9, 2016; 3,543 shares at the exercise price of \$61.530 on February 9, 2017; and 3,543 shares at the exercise price of \$61.530 on February 9, 2018. Mr. Wheeler will have the right to exercise an option for 2,667 shares at the exercise price of \$34.923 on February 11, 2016; 3,316 shares at the exercise price of \$46.470 on February 10, 2016; 3,317 shares at the exercise price of \$46.470 on February 10, 2017; 3,204 shares at the exercise price of \$61.530 on February 9, 2016; 3,203 shares at the exercise price of \$61.530 on February 9, 2017; and 3,203 shares at the exercise price of \$61.530 on February 9, 2018. Mr. Petrarca will have the right to exercise an option for 3,467 shares at the exercise price of \$34.923 on February 11, 2016; 2,766 shares

**Table of Contents**

at the exercise price of \$46.470 on February 10, 2016; 2,767 shares at the exercise price of \$46.470 on February 10, 2017; 2,670 shares at the exercise price of \$61.530 on February 9, 2016; 2,670 shares at the exercise price of \$61.530 on February 9, 2017; 2,670 shares at the exercise price of \$61.530 on February 9, 2018.

<sup>2</sup> Mr. Rajendra will vest in 20,800 restricted stock units on February 11, 2016; 18,450 restricted stock units on February 10, 2017; and 14,750 restricted stock units on February 09, 2018. Mr. Kita will vest in 6,600 restricted stock units on February 11, 2016; 5,150 restricted stock units on February 10, 2017; 4,065 restricted stock units on February 9, 2018. Mr. Stern will vest in 4,400 restricted stock units on February 11, 2016; 3,550 restricted stock units on February 10, 2017; and 2,965 restricted stock units on February 9, 2018. Mr. Wheeler will vest in 2,800 restricted stock units on February 11, 2016; 3,550 restricted stock units on February 10, 2017; 2,680 restricted stock units on February 9, 2018. Mr. Petrarca will vest in 3,600 restricted stock units on February 11, 2016; 2,950 restricted stock units on February 10, 2017; 2,235 restricted stock units on February 9, 2018.

<sup>3</sup> Market value determined by the NYSE closing market price of \$76.61 on December 31, 2015, the last trading day of the fiscal year.



**Table of Contents****OPTION EXERCISES AND STOCK VESTED**

The following table provides information related to options exercised and stock vested for each of the named executive officers during fiscal year 2015.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) <sup>1</sup>
Ajita G. Rajendra	0	0	17,200	\$ 1,079,730
John J. Kita	47,200	\$ 2,175,887	9,400	590,085
James F. Stern	27,900	1,852,560	6,400	401,760
Kevin J. Wheeler	0	0	2,600	163,215
Mark A. Petrarca	14,000	749,101	5,000	313,578

<sup>1</sup> Based on NYSE closing price of the Common Stock on the vesting date.

**PENSION BENEFITS**

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Ajita G. Rajendra	A. O. Smith Retirement Plan	10.92		0
	Executive Supplemental Pension Plan		\$ 471,099	
	Special Pension Arrangement		5,322,301 1,205,374	
John J. Kita	A. O. Smith Retirement Plan	27.28		0
	Executive Supplemental Pension Plan		1,052,234 5,105,093	
James F. Stern	A. O. Smith Retirement Plan	8.59		0
	Executive Supplemental Pension Plan		218,115 1,172,133	

## Edgar Filing: SMITH A O CORP - Form DEF 14A

Kevin J. Wheeler	A. O. Smith Retirement Plan	21.12	654,538	0
	Executive Supplemental Pension Plan			
Mark A. Petrarca	A. O. Smith Retirement Plan	16.57		0
			435,520	
	Executive Supplemental Pension Plan		1,641,415	

---

We maintained a qualified defined benefit pension plan, the A. O. Smith Retirement Plan, for all eligible salaried employees that was closed to new entrants in 2010. The plan provides a monthly retirement benefit at normal retirement age equal to 1.1% of five-year final average pay, plus 0.5% of five-year final average pay in excess of social security compensation multiplied by credited service up to a 40-year maximum. Average annual pay includes base salary and 50% of annual bonus. Benefit accruals under the A. O. Smith Retirement Plan ceased as of December 31, 2014. In its place, we provide a non-elective company contribution under the A. O. Smith Retirement Security Plan, which is our 401(k) plan.

We also maintain the A. O. Smith Corporation Executive Supplemental Pension Plan to provide benefits to an executive whose benefits in the A. O. Smith Retirement Plan are subject to limitations under the Internal Revenue Code and to take into account 100% of an executive's annual incentive bonus. The Executive Supplemental Pension Plan provides a benefit equivalent to 1.65% of the executive's five-year final average pay times years of credited service up to a 40-year maximum, less the benefit provided from the A. O. Smith Retirement Plan. In July, 2010, the

## Table of Contents

PCC decided to continue the existing Executive Supplemental Pension Plan for all executive officers participating at that time, which includes Messrs. Rajendra, Kita, Stern, and Petrarca. Its decision, however, reduces the final retirement benefit for affected executives by the amount of the monthly benefit that was lost when the A. O. Smith Retirement Plan stopped accruing benefits on December 31, 2014. Executives hired or promoted to a qualifying position after July 2010 do not participate in the existing defined benefit Executive Supplemental Pension Plan. Instead, they participate in a defined contribution restoration plan that will provide a 3% contribution under the A. O. Smith Nonqualified Deferred Compensation Plan per year of pay (base salary plus annual bonus) based on compensation above the Internal Revenue Service limit. All named executive officers participate in the Executive Supplemental Pension Plan except Mr. Wheeler. Mr. Wheeler participates in the defined contribution restoration plan.

The normal retirement age under the A. O. Smith Retirement Plan and the Executive Supplemental Pension Plan for Mr. Rajendra is 66; for Messrs. Kita, Stern, Petrarca and Wheeler, the normal retirement age is 67. Each plan provides for early retirement as early as age 57 and 10 years of service but with reductions in the normal retirement benefit. The reductions for benefits provided by the A. O. Smith Retirement Plan are equal to 6.67% per year between the age at retirement and the executive's normal retirement age less three years (also called the unreduced retirement age). Messrs. Rajendra and Kita are currently eligible for early retirement. If an executive retires early, the single lump-sum amount to be paid from the Executive Supplemental Pension Plan is calculated based upon the unreduced benefit commencing at the unreduced retirement age discounted for interest between the unreduced retirement age and executive's age at early retirement using the after-tax yield on the Barclays Capital U.S. Corporate Index. Executives terminating before age 57 and 10 years of service with a vested benefit receive a single lump-sum amount from the Executive Supplemental Pension Plan calculated in the same manner as for early retirement except the benefit is based upon the unreduced benefit commencing at the executive's normal retirement age, discounted for interest between the executive's normal retirement age and the executive's age at termination.

The Present Value of Accumulated Benefit set forth in the table above is based on assumptions and valuation dates that are the same as those used for the valuation of pension liabilities as set forth in most recent annual report. Retirement age under the A. O. Smith Retirement Plan and the Executive Supplemental Pension Plan is assumed to be the earliest age that an executive can retire with an unreduced benefit, which is age 63 for Mr. Rajendra and age 64 for Messrs. Kita, Stern, Petrarca and Wheeler. Post-retirement mortality rates are based on the RP 2014 Healthy Annuitant Mortality Table, including generational improvements using scale MP2015. The assumption is made that there is no probability of pre-retirement death or termination by any other cause.

The A. O. Smith Retirement Plan pays benefits in the form of a single life retirement annuity. Optional forms of annuity payment are available on an actuarially equivalent basis. The retirement benefit under the Executive Supplemental Pension Plan is paid as a single lump-sum to the executive upon retirement. The lump-sum amount is calculated by determining the amount necessary (including a tax gross-up for the tax liability attributable to the lump-sum payment) to purchase a commercial annuity that will provide an after-tax monthly amount equivalent to the after-tax amount the executive would receive if the monthly pension would be paid directly by us. To calculate the Present Value of Accumulated Benefits for the benefit under the Executive Supplemental Pension Plan, assumptions are made regarding the executive's tax rate at retirement and post retirement tax rate and a lump-sum interest rate obtained by surveying various annuity companies (currently 3.0%). As an offset to a portion of the lump sum payment obligation to the executive, we may transfer life insurance policies to the executive valued at the cash surrender value of the life insurance policies.

We do not have a policy to grant extra years of service. One named executive has a special arrangement negotiated upon his employment with us. Having completed 10 years of service, Mr. Rajendra will be eligible for a payment of \$85,000 per year. In December 2015, the parties amended this agreement to clarify that the Company will provide semi-monthly payments of \$3,541.67 to Mr. Rajendra for the balance of his life, with the first payment commencing six months following his separation, as required by law. Payments are treated as taxable wages for FICA purposes. Mr. Rajendra's benefit is in addition to the benefits provided by the A. O. Smith Retirement Plan and the Executive Supplemental Pension Plan. This agreement was granted in order to compensate Mr. Rajendra for benefits forfeited from his prior employer upon termination.

**Table of Contents****NONQUALIFIED DEFERRED COMPENSATION**

<b>Name</b>	<b>Executive Contributions in 2015 (\$)</b>	<b>Registrant Contributions in 2015 (\$)<sup>1</sup></b>	<b>Aggregate Earnings in 2015 (\$)</b>	<b>Aggregate Withdrawals/ Distributions (\$)</b>	<b>Aggregate Balance at December 31, 2015 (\$)</b>
Ajita G. Rajendra	0	\$ 66,531	\$ (20,468)	0	\$ 336,097
John J. Kita	0	22,028	5,382	0	401,298
James F. Stern	0	16,683	(15,538)	0	582,922
Kevin J. Wheeler	0	23,733	(9,015)	0	276,110
Mark A. Petrarca	0	12,627	(1,543)	0	187,951

<sup>1</sup> All registrant contributions under the A. O. Smith Nonqualified Deferred Compensation Plan in 2015 are also reported in the Summary Compensation Table.

Each executive has an account in the A. O. Smith Nonqualified Deferred Compensation Plan, which each year is credited with supplemental company contributions and notional dividend equivalents on restricted stock and restricted stock units. The executive's account is a bookkeeping entry only. Amounts credited to the executive's account are credited with gains and losses each month based on the executive's crediting election. The crediting election is used to designate the investment fund(s) as the basis for calculating the rate of return equivalent for the executive's account. The current funds available for a crediting election are: Principal Global Investors Money Market Division, PIMCO VIT Total Return Division, Principal LifeTime 2010 Division, Principal LifeTime 2020 Division, Principal LifeTime 2030 Division, Principal LifeTime 2040 Division, Principal LifeTime 2050 Division, Principal LifeTime 2060 Division, Principal LifeTime Strategic Income Division, Vanguard VIF Balanced Division, Edge Asset Management, Inc. Equity Income Division, MFS VIT Growth Division, Vanguard VIF Equity Index Division, American Century VP Mid Cap Value Division, Delaware VIP Small Cap Value Division, Janus Aspen Enterprise Division, Templeton Foreign VIP Division, and A. O. Smith Stable Value Fund.

The Nonqualified Deferred Compensation Plan also allows executives to defer payment of all or a part of their base salary, annual incentive bonus or restricted stock units to a future date. Deferred amounts are credited to the executive's account in the Nonqualified Deferred Compensation Plan, and gains and losses on the deferred amounts are credited in the same manner as described above for supplemental company contributions and notional dividend equivalents, except that deferrals of restricted stock units are deemed invested in shares of our Common Stock for purposes of determining gains and losses, and dividend equivalents on such restricted stock units are credited in the form of additional restricted stock units.

Executives are eligible to receive payment of amounts in their accounts under the Nonqualified Deferred Compensation Plan beginning upon termination of employment (six months after termination in the case of the amounts credited to accounts on or after January 1, 2005).

**EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT****AND CHANGE IN CONTROL ARRANGEMENTS**

## Edgar Filing: SMITH A O CORP - Form DEF 14A

We have a Senior Leadership Severance Plan (the "Severance Plan"), in which all of the named executive officers participate. The Board implemented the Severance Plan to establish financial protection for our executives upon various employment termination scenarios, including a change in control of our company. We believe the Severance Plan assists in retention of executives and provides a more attractive compensation package when recruiting key talent. Furthermore, instead of negotiating individual separation arrangements upon a termination, the Board can ensure consistent and equitable treatment for all executives through the Severance Plan.

---

## **Table of Contents**

The Severance Plan provides that each named executive officer will receive severance benefits upon a Qualifying Termination and provides for vesting of certain equity awards upon a Change in Control. Under the Severance Plan:

A Qualifying Termination is an involuntary termination of employment without Cause or a voluntary termination of employment with Good Reason.

Cause means any of the following: conviction or plea of nolo contendere to a felony or crime involving moral turpitude; the executive's willful and continuing refusal to substantially perform his duties; the executive engages in conduct that constitutes willful gross neglect or willful gross misconduct, or any other material breach of the Confidentiality and Loyalty Agreement by the executive.

Good Reason means any of the following, without the executive's consent: our company materially reduces the executive's base salary; our company requires the executive to be based at a location in excess of 50 miles from his principal job location; material diminution in the executive's title, authority, duties or responsibilities; the failure of our company or its business unit, as applicable, to obtain the written commitment of a purchaser of substantially all assets of our company or the business unit, to be bound to the terms of the Severance Plan; or any action or inaction by our company that constitutes a material breach of the Severance Plan.

A Change in Control is deemed to have occurred upon: the acquisition of 50% or more of our company's or relevant business unit's capital stock entitled to vote in the election of directors (other than acquisitions by certain members of the Smith family); a majority of the members of the Board of Directors of our company as of August 1, 2009 (or succeeding directors elected or nominated by 2/3 of the existing directors) ceasing to be continuing directors at any time; or the consummation of a reorganization, merger, or consolidation resulting in a change in ownership with respect to 50% or more of the relevant entity's voting securities, or a sale or other disposition of more than 40% of our company's or the relevant business unit's assets.

In order to be covered by the Severance Plan, named executive officers must sign a noncompete, nonsolicitation, assignment of inventions, and confidentiality agreement. In order to receive severance benefits, the named executive officers must sign a release of all claims against our company and its affiliates.

The Severance Plan had an irrevocable term through July 31, 2013, and automatically renews for successive one-year periods. The Plan will automatically renew for two years upon a Change in Control.

In the event of a Qualifying Termination, Mr. Rajendra will receive 24 months of continuation of pay. Messrs. Kita, Stern, Petrarca and Wheeler will receive continuation of pay for 18 months. The continuation of pay will be equal to the executive's annual salary and target bonus during the year of termination. Each named executive officer will also receive within 2 1/2 months after the end of the year in which the termination occurred a lump-sum payment of the actual bonus based on performance that would have been payable for the year of termination adjusted on a pro-rata basis based on days employed during the bonus plan year. Each named executive officer will also receive medical benefit continuation and outplacement (capped at 25% of the executive's annual base salary) through the Severance Period (the period during which the executive receives salary continuation).

Upon a Qualifying Termination without a Change in Control, long-term incentive awards are treated as follows: (i) any unvested or unearned long-term incentive awards that were granted during the calendar year of the termination date will be forfeited; (ii) unvested stock options become vested on a pro-rata basis; (iii) unvested shares of restricted stock and unvested restricted stock units that vest solely on the passage of time that were granted in any calendar year before the termination become vested on a pro-rata basis; and (iv) unearned performance shares and performance units, and unearned shares of restricted stock and restricted stock units that vest based on the achievement of performance goals will be paid at the end of the actual performance period on a pro-rata basis based on actual performance.

Upon a Qualifying Termination within two years following a Change in Control, the named executive officers will be eligible for an enhanced benefit. The named executive officers, other than Mr. Rajendra, will receive a lump-sum severance payment equal to 15 months of base salary and target bonus, and a lump-sum payment equal to 9

**Table of Contents**

months of base pay and target bonus in consideration for the noncompete provisions. Mr. Rajendra will receive a lump-sum payment equal to 24 months of base salary and target bonus, and a lump-sum payment equal to 12 months of base pay and target bonus in consideration for the noncompete provisions. Each named executive officer will also receive a lump-sum payment of the target bonus that would have been payable for the year of termination adjusted on a pro-rata basis based on days employed during the bonus plan year. The named executive officers also will be eligible to receive continued medical and outplacement benefits during the Severance Period.

Furthermore, upon a Change in Control, long-term incentive awards are treated as follows: (i) unvested stock options become fully vested; (ii) unvested shares of restricted stock and unvested restricted stock units that vest solely on the passage of time become fully vested; and (iii) unearned performance shares and performance units, and unearned shares of restricted stock and restricted stock units that vest based on the achievement of performance goals are paid out at the target amount, adjusted on a pro-rata basis based on the time the executive was employed during the relevant performance period. However, if the Change in Control is the result of a sale of our company's or a relevant business unit's assets, then the executive will only receive such treatment with respect to his long-term incentive awards if the executive experiences a Qualifying Termination within 24 months of such Change in Control.

The company will reimburse the named executive officer for excise tax liability resulting from payments received in connection with his or her termination following a Change in Control if the executive's Parachute Payments (as defined under Internal Revenue Code Section 280G) exceed the officer's safe harbor (as defined under Internal Revenue Code Section 280G) by more than 10 percent. The company will cap the executive's total payment if his or her total net benefit is less than 110 percent of the executive's respective safe harbor amount, which we refer to as Effect of Modified Gross-up Provision in the table below.

Set forth below are tables showing payments and benefits to each named executive officer upon a Qualifying Termination or a Change in Control and a Qualifying Termination under the Severance Plan.

We list the estimated amount of compensation payable to each of our named executive officers in each situation in the tables below assuming that a Qualifying Termination or Change in Control and Qualifying Termination occurred at December 31, 2015, and that our Common Stock had a value of \$76.61, which was the closing market price for our Common Stock on December 31, 2015. The actual amount of payments and benefits can only be determined at the time of such a Qualifying Termination or Change in Control, and therefore the actual amounts would vary from the estimated amounts in the tables below.

---

**Payments Resulting From A Qualifying Termination**

**December 31, 2015**

---

Name	Severance	Pro-rata Bonus <sup>1</sup>	Stock Options	Restricted Stock Units	Performance Units <sup>2</sup>	Medical Coverage <sup>3</sup>	Outplacement <sup>4</sup>	Total
Ajita G. Rajendra	\$ 4,018,000	\$ 1,611,000	\$ 2,650,550	\$ 4,136,941	\$ 2,195,500	\$ 468	\$ 245,000	\$ 14,857,459
John J. Kita	1,331,100	572,000	768,448	1,211,588	663,500	12,090	130,500	4,689,226
James F. Stern	1,217,430	510,000	229,208	484,558	358,500	12,090	121,500	2,933,286



## Edgar Filing: SMITH A O CORP - Form DEF 14A

Kevin J. Wheeler	989,100	527,000	175,941	368,792	224,000	15,678	105,000	2,405,511
Mark A. Petrarca	989,100	375,000	189,919	398,585	302,400	11,586	105,000	2,371,590

---

<sup>1</sup> Upon a Qualifying Termination or retirement, pro-rata bonus is based upon actual performance. The amounts in the table are based on the actual bonus for 2015.

<sup>2</sup> Upon a Qualifying Termination, payout is based upon actual performance. The amounts in the table assume the 2013-2015 award will pay out at 172.5% of target and awards for other performance periods will pay out at target.

**Table of Contents**

<sup>3</sup> Calculated based on the employer-paid portion of medical and dental insurance for the Severance Period.

<sup>4</sup> Calculated at the maximum under the Severance Plan, 25% of the named executive officer's base salary.

---

**Payments Resulting From A Change In Control**
**And Qualifying Termination Of Employment**
**December 31, 2015**


---

Name	Severance	Pro-rata Bonus	Stock Options	Restricted Stock Units	Performance Units	Medical Coverage <sup>1</sup>	Outplace- ment <sup>2</sup>	Effect of Modified Gross-up Provision <sup>3</sup>	Excise Tax Gross-up	Total
Ajita G. Rajendra	\$ 6,027,000	\$ 1,029,000	\$ 2,650,564	\$ 4,136,941	\$ 1,651,600	\$ 1,404	\$ 245,000	\$ 0	\$ 7,067,196	\$ 22,808,705
John J. Kita	1,774,800	365,400	768,448	1,211,588	489,500	24,180	130,500	0	0	4,764,416
James F. Stern	1,623,240	325,620	535,314	562,700	335,600	24,180	121,500	0	0	3,528,154
Kevin J. Wheeler	1,402,800	281,400	456,013	438,363	270,000	15,678	105,000	0	973,178	3,942,432
Mark A. Petrarca	1,318,800	239,400	432,094	458,281	275,300	23,172	105,000	0	0	2,852,047

---

<sup>1</sup> Calculated based on the employer paid portion of medical and dental insurance for the Severance Period.

<sup>2</sup> Calculated at the maximum under the Severance Plan, 25% of the named executive officer's base salary.

<sup>3</sup> Reflects the amount by which payments to an executive will be reduced so that the executive is not required to pay excise tax.

The A. O. Smith Combined Incentive Compensation Plan allows executives who retire to continue to vest stock options, restricted stock units and performance awards on their original vesting schedule. Upon an executive's retirement, outstanding stock options receive an accelerated expiration of the earlier of the original expiration date or five years from the date of retirement. A retiring executive is entitled to receive a pro-rata portion of performance units based on the period of his employment during the three-year performance period based on achievement of the performance goals. A retiring executive is also entitled to receive a pro-rata portion of annual incentive compensation, based on his period of employment during the performance period and actual performance achieved.

Please refer to the Pension Benefits and Nonqualified Deferred Compensation Tables above and related narrative for additional information on the present value of accumulated benefits for our named executive officers.

In addition, each of our named executive officers is provided life insurance as discussed in the section, Executive Life Insurance. The death benefits payable as of December 31, 2015, are: \$2,940,000 for Mr. Rajendra; \$1,566,000 for Mr. Kita; \$1,458,000 for Mr. Stern; \$1,260,000 for Mr. Wheeler, and \$1,260,000 for Mr. Petrarca. The death benefits payable after retirement are: \$980,000 for Mr. Rajendra; \$522,000 for

## Edgar Filing: SMITH A O CORP - Form DEF 14A

Mr. Kita; \$486,000 for Mr. Stern; \$420,000 for Mr. Wheeler; and \$420,000 for Mr. Petrarca.

**Table of Contents**

**REPORT OF THE PERSONNEL AND COMPENSATION COMMITTEE**

The Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on the Committee's review and discussion with management, the Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference in our Annual Report on Form 10-K for the year ended December 31, 2015.

Ronald D. Brown, Chairperson

William P. Greubel, Committee Member

Mathias F. Sandoval, Committee Member

Bruce M. Smith, Committee Member

**ADVISORY VOTE TO APPROVE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

As required by Section 14A of the Securities Exchange Act of 1934, we are asking our stockholders to vote, on a nonbinding advisory basis, on a resolution approving the compensation of our named executive officers, as disclosed pursuant to the executive compensation disclosure rules of the SEC, including in the Compensation Discussion and Analysis section and the accompanying compensation tables and narrative discussion contained in this Proxy Statement.

As we describe in detail in the Compensation Discussion and Analysis section and the accompanying compensation tables and narrative discussion contained in this Proxy Statement, we have designed our executive compensation programs to drive our long-term success and increase stockholder value. We utilize our executive compensation programs to provide competitive compensation that will attract and retain our named executive officers, encourage our named executive officers to perform at their highest levels by linking compensation with financial and performance milestones, and directly align our executive compensation with stockholders' interests through the use of equity-based incentive awards.

The Personnel and Compensation Committee has overseen the development and implementation of our executive compensation programs in line with these core compensation principles. The Personnel and Compensation Committee also continuously reviews, evaluates and updates our executive compensation programs to help ensure that we provide competitive compensation that motivates our named executive officers to perform at their highest levels, while increasing long-term value to our stockholders. With these core compensation principles in mind, the Personnel and Compensation Committee took the following compensation actions in 2015 to align our programs with stockholder interests:

maintained the structure of our compensation programs and incentive awards generally to provide compensation at targeted levels based on benchmark studies;

conducted an annual risk assessment with respect to our executive compensation program; and

## Edgar Filing: SMITH A O CORP - Form DEF 14A

maintained the maximum cap in our annual incentive compensation plan at 200% of target, which aligns with market practices and rewards management for building extraordinary value for stockholders.

We believe the Personnel and Compensation Committee's compensation actions, like those described above, demonstrate our continued commitment to align our executive compensation with stockholders' interests, while providing competitive compensation to attract, motivate and retain our named executive officers and other key talent. We will continue to review and adjust our executive compensation programs with these goals in mind to help ensure the long-term success of our company and generate increased long-term value to our stockholders.

## **Table of Contents**

The Board of Directors requests the support of our stockholders for the compensation of our named executive officers as disclosed in the Compensation Discussion and Analysis section and the accompanying compensation tables and narrative discussion in this Proxy Statement. This advisory vote on the compensation of our named executive officers gives our stockholders another means to make their opinions known on our executive compensation programs. For the reasons we discuss above, the Board recommends that stockholders vote in favor of the following resolution:

**RESOLVED**, that the stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including in the Compensation Discussion and Analysis section and compensation tables and narrative discussion contained in this Proxy Statement.

This vote on the compensation of our named executive officers is advisory and not binding on us, our Board of Directors or the Personnel and Compensation Committee. Although the outcome of this advisory vote on the compensation of our named executive officers is nonbinding, the Personnel and Compensation Committee and the Board of Directors will review and consider the outcome of this vote when making future compensation decisions for our named executive officers.

## **REPORT OF THE AUDIT COMMITTEE**

The primary responsibility of the Audit Committee is to oversee our financial reporting process on behalf of the Board, to oversee the activities of our 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 our internal control structure. The Committee reviewed and discussed with management and the independent registered public accounting firm our audited financial statements as of and for the year ended December 31, 2015.

During 2015, the Audit Committee conducted eleven meetings, four of which were in person and seven of which were telephonic. The Committee chairperson and other members of the Committee each quarter reviewed and commented on the earnings news release and interim financial statements contained in SEC Form 10-Qs, and met and discussed our draft Annual Report on SEC Form 10-K with the chief financial officer, general counsel, controller, and independent registered public accounting firm prior to filing and public release. The Committee also surveyed the Board and management and, as part of the company's Enterprise Risk Management (ERM) program, identified specific risk topics that the Committee directed be addressed in presentations to the Board, including cybersecurity risk. In addition, the Committee reviewed and ratified its Charter.

The Committee discussed with the independent registered public accounting firm the matters required to be discussed by Auditing Standard No. 16 and Rule 2-07 of SEC Regulation S-X. 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 the Committee has the same direct access to the director of internal audit and the independent registered public accounting firm. The Committee met with the director of internal audit and the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of our internal controls, and the overall quality of our financial reporting.

The Committee received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board for independent auditor communications with Audit Committees concerning independence. In addition, the Committee considered the compatibility of non-audit services with the independent registered public

## Edgar Filing: SMITH A O CORP - Form DEF 14A

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 amount of

**Table of Contents**

the budget 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 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, 2015, Ernst & Young LLP was employed principally to perform the annual audit and to render tax 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>2015</b>	<b>2014</b>
Audit Service Fees	\$ 1,319,000	\$ 1,191,000
Audit Related Fees	24,000	4,200
Tax Fees	84,000	15,050
<b>Total Fees</b>	<b>\$ 1,427,000</b>	<b>\$ 1,210,250</b>

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

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, the Committee recommended to the Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC. The Committee appointed Ernst & Young LLP as our independent registered public accounting firm for fiscal 2015, subject to stockholder ratification, and preliminarily approved its estimated fees for first and second quarter reviews, audit related, and tax services.

Gene C. Wulf, Chairperson

Gloster B. Current, Jr., Committee Member

Mark D. Smith, Committee Member

Idelle K. Wolf, Committee Member

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



The Audit Committee of the Board of Directors of our company has appointed Ernst & Young LLP as our company's independent registered public accounting firm for 2016. Representatives of Ernst & Young LLP have been invited to be present at the 2016 Annual Meeting of Stockholders to provide a statement and respond to stockholder questions. 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 our 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 will reconsider the matter. Even if the appointment is ratified, the Audit Committee, in its discretion, may select a different independent registered public accounting firm at any time during the fiscal year if it determines that such a change would be in the best interest of our company and our stockholders.

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

The Nominating and Governance Committee met three times during the year. The Committee monitored the status of legislation and related SEC regulations impacting corporate governance. The Committee also reviewed the process implemented by the Board and each Board Committee to review best practices and how they addressed risk

## **Table of Contents**

oversight. In addition, the Committee reviewed a governance best practice or SEC topic at each of its meetings. Further, the Committee reviewed and revised its Charter, which provides that the Committee is responsible for the nomination of directors, review of director independence and compensation committee consultant independence, review of compensation to be paid to directors and our company's corporate governance practices, especially in light of SEC and NYSE rules. The Charter is posted on our website; the address of the website is [www.aosmith.com](http://www.aosmith.com). The Committee also reviewed continuing education opportunities for the directors.

As part of its responsibilities, the Committee monitored our corporate governance. It recommended to the Board of Directors updates to the Corporate Governance Guidelines, which the Board adopted. The Committee verified that all Committees' Charters were in place and were reviewed by the Committees. It reviewed our code of business conduct, called the Guiding Principles, as well as our financial code of ethics, officers' outside board memberships, minimum qualifications for directors, the process and procedure for stockholder recommendation of director candidates and stockholder communications with the Board, which the Board previously adopted. These and other corporate governance documents, including Committees' Charters, are available via our website. No waivers were sought or granted from our code of conduct.

The Committee also is responsible for reviewing director compensation. The committee recommended one change in director compensation in 2015, to increase the directors' stock retainer from \$110,000 to \$120,000, which became effective following the July 14, 2015 Board meeting.

The Committee reviewed Board Committee member qualifications and independence 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. Further, the Committee reviewed the independence of compensation consultants and made recommendations to the Personnel and Compensation Committee as to their independence.

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. The directors also evaluated the performance of each of their fellow directors.

William P. Greubel, Chairperson

Ronald D. Brown, Committee Member

Mathias F. Sandoval, Committee Member

Bruce M. Smith, Committee Member

## **RATIFICATION OF AN AMENDMENT TO OUR BY-LAWS TO DESIGNATE DELAWARE AS THE EXCLUSIVE FORUM FOR ADJUDICATION OF CERTAIN DISPUTES**

On October 13, 2015, the Board adopted an amendment to the Company's By-Laws which added a new Article XI ( Article XI ) designating Delaware as the sole and exclusive forum for specified legal actions unless otherwise consented to by the Company. This designation applies to (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee of the Company to the Company or the Company's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, or (iv) any action asserting a claim governed by the internal affairs

## Edgar Filing: SMITH A O CORP - Form DEF 14A

doctrine. The full text of Article XI is set forth in Appendix A to this Proxy Statement.

Although the exclusive forum amendment took effect immediately, the Board determined that it would be submitted to stockholders for ratification at the 2016 Annual Meeting in accordance with our Amended and Restated Certificate of Incorporation, the Delaware General Corporation Law, and the rules and regulations of the SEC, with the understanding that, if stockholders fail to ratify the exclusive forum amendment, the Board will reconsider it.

Article XI is intended to assist the Company in avoiding multiple lawsuits in multiple jurisdictions on matters relating to the corporate law of Delaware, our state of incorporation. Article XI only regulates the forum where our

## **Table of Contents**

stockholders may file claims relating to the specified corporate disputes. Article XI does not restrict the ability of our stockholders to bring such claims nor the remedies available if such claims are ultimately successful.

Although the Board believes the designation of Delaware courts as the exclusive forum for the specified corporate disputes serves the best interests of the Company and our stockholders as a whole, the Board also believes that we should retain the ability to consent to an alternative forum on a case-by-case basis. Accordingly, Article XI permits the corporation to consent to the selection of such an alternative forum.

The Board believes our stockholders will benefit from having the specified corporate disputes litigated in Delaware state courts or, if no state court has jurisdiction, the United States District Court for the District of Delaware. Although some plaintiffs might prefer to litigate such matters in a forum outside of Delaware because they perceive another court as more convenient or more favorable to their claims (among other reasons), the Board believes that the substantial benefits to us and our stockholders as a whole from designating Delaware courts as the exclusive forum for the specified corporate disputes outweigh these concerns. Delaware courts are widely regarded as the leading courts for the determination of disputes involving a corporation's internal affairs in terms of precedent, experience and focus. The courts' considerable expertise has led to the development of a substantial and influential body of case law interpreting Delaware's corporate law. This provides us and our stockholders with more predictability regarding the outcome of corporate disputes. In addition, the Delaware courts have developed streamlined procedures and processes that help provide relatively quick decisions for litigating parties. This accelerated schedule can limit the time, cost, and uncertainty of litigation for all parties.

The Board believes selecting the Delaware courts as the exclusive forum for the specified corporate disputes reduces the risks that we could be forced to waste resources defending against duplicative suits and that the outcome of cases in multiple jurisdictions could be inconsistent, even though each forum purports to follow Delaware law.

Accordingly, the Board recommends that our stockholders ratify Article XI.

## **APPROVAL OF AMENDMENT TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK**

The Board recommends that the stockholders approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from 120,000,000 to 240,000,000. The effectiveness of this proposal is conditioned upon stockholder approval of the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock, and the effectiveness of the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock is conditioned upon stockholder approval of this proposal. The full text of the amendments to our Amended and Restated Certificate of Incorporation that would be effected under both proposals is set forth in Appendix B to this Proxy Statement. The proposed amendment will not affect the number of authorized shares of preferred stock.

The Board believes that the proposed increase in the number of authorized shares of Common Stock is desirable to enhance our flexibility to take possible future action as the Board may deem desirable, such as stock splits and for a variety of general corporate purposes, including but not limited to, stock-based acquisitions, stock dividends, equity compensation awards, equity financings, conversion of Class A Common Stock,

## Edgar Filing: SMITH A O CORP - Form DEF 14A

or other corporate purposes. The Board has not approved a stock split or authorized us to take any other action with respect to the shares of Common Stock that would be authorized under the proposed amendment. If approved by our stockholders, the additional authorized shares of Common Stock would be available for issuance for any proper corporate purpose as determined by our Board without further approval by the stockholders, except as required by applicable law or stock exchange rules. The Board believes that the availability of additional shares of our Common Stock for issuance will enable us to take advantage of favorable opportunities without the delay and expense associated with holding a special meeting of stockholders at the time such additional shares may be needed.

## **Table of Contents**

With respect to any stock split, our Amended Restated Certificate of Incorporation requires that a stock split apply equally to outstanding Common Stock and Class A Common Stock, which means that we would issue additional shares of Common Stock with respect to outstanding shares of Common Stock on the same basis as we would issue additional shares of Class A Common Stock with respect to outstanding shares of Class A Common Stock in a stock split. If stockholders approve the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock and stockholders approve the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock, then we would not need further stockholder approval to effect a stock split, if approved by our Board in the future.

We have issued Common Stock in the recent past for the following purposes:

upon conversion of Class A Common Stock to Common Stock upon transfer to unaffiliated third parties;

to effect a three-for-two stock split on November 19, 2010 to make our Common Stock more attractive to a broader investor base as well as increase its liquidity;

to effect a two-for-one stock split on May 15, 2013 to make our Common Stock more attractive to a broader investor base; and

to compensate, attract and retain our employees and directors through participation in our equity compensation plans.

Our Amended and Restated Certificate of Incorporation currently provides that we have 120,000,000 shares of authorized Common Stock. As of the February 16, 2016, record date, there were 82,167,099 shares of Common Stock issued; 13,186,698 shares of Common Stock reserved for issuance upon conversion of issued shares of Class A Common Stock; 1,822,812 shares of Common Stock reserved for issuance upon exercise of outstanding options and settlement of restricted stock units under our stockholder-approved A. O. Smith Combined Incentive Compensation Plan; and 1,663,306 shares of Common Stock reserved for issuance in connection with future awards available for grant under our stockholder-approved A. O. Smith Combined Incentive Compensation Plan. As a result, as of the record date, there were 21,160,085 authorized shares of Common Stock that were not reserved and that we may issue for any future business purposes.

The additional Common Stock proposed to be authorized will have rights identical to, and have the same rights and privileges as, our currently authorized and outstanding Common Stock. Under our Restated Certificate of Incorporation, stockholders do not have preemptive rights to subscribe to additional shares of Common Stock that we may issue. This means that current stockholders do not have prior right to purchase any new issue of our capital stock to maintain their proportionate ownership of Common Stock.

The Board does not intend to issue any shares of Common Stock except for purposes and on terms that the Board believes to be in the best interests of our stockholders and our company. However, depending on the purpose and terms of issuance at the time, if we issue additional shares of Common Stock or other securities convertible into Common Stock in the future, it could dilute the voting rights of existing stockholders and could also dilute earnings per share and book value per share of existing stockholders. The increase in authorized Common Stock could also make more difficult or discourage attempts to obtain control of our company, thereby having an anti-takeover effect. The increase in authorized shares of Common Stock is not being proposed in response to any known threat to acquire control of our company.

If stockholders approve the amendments to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock and to increase the number of authorized shares of Class A Common Stock, then the amendments will become effective upon filing a certificate of amendment to our certificate of incorporation with the Secretary of State of the State of Delaware, which filing we expect

to make soon after the Annual Meeting.

**Table of Contents**

**APPROVAL OF AMENDMENT TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF CLASS A COMMON STOCK**

The Board recommends that the stockholders approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock from 14,000,000 to 27,000,000. The effectiveness of this proposal is conditioned upon stockholder approval of the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock, and the effectiveness of the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock is conditioned upon stockholder approval of this proposal. The full text of the amendments to our Amended and Restated Certificate of Incorporation that would be effected under both proposals is set forth in Appendix B to this Proxy Statement. The proposed amendment will not affect the number of authorized shares of preferred stock.

The Board believes that the proposed increase in the number of authorized shares of Class A Common Stock is desirable to enhance our flexibility to take possible future action as the Board may deem desirable with respect to a stock split. The Board has not approved a stock split or authorized us to take any other action with respect to the shares of Class A Common Stock that would be authorized under the proposed amendment. If approved by our stockholders, the additional authorized shares of Class A Common Stock would be available for issuance in connection with a stock split as determined by our Board without further approval by the stockholders, except as required by applicable law or stock exchange rules. The Board believes that the availability of additional shares of our Class A Common Stock for issuance in connection with a stock split will enable us to take advantage of favorable opportunities without the delay and expense associated with holding a special meeting of stockholders at the time such additional shares may be needed.

The additional shares of Class A Common Stock for which authorization is sought would be issued only in the event the Board approves a stock split of both Class A Common Stock and Common Stock. With respect to any stock split, our Amended Restated Certificate of Incorporation requires that a stock split apply equally to outstanding Class A Common Stock and Common Stock, which means that we would issue additional shares of Class A Common Stock with respect to outstanding shares of Class A Common Stock on the same basis as we would issue additional shares of Common Stock with respect to outstanding shares of Common Stock in a stock split. If stockholders approve the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock and stockholders approve the proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock, then we would not need further stockholder approval to effect a stock split, if approved by our Board in the future.

We have issued Class A Common Stock in the recent past for the following purposes:

to effect a three-for-two stock split on November 19, 2010; and

to effect a two-for-one stock split on May 15, 2013.

Our Amended and Restated Certificate of Incorporation currently provides that we have 14,000,000 shares of authorized Class A Common Stock. As of the February 16, 2016 record date, there were 13,186,698 shares of Class A Common Stock issued. The additional Class A Common Stock proposed to be authorized will have rights identical to, and have the same rights and privileges as, our currently authorized and outstanding Class A Common Stock.



## Edgar Filing: SMITH A O CORP - Form DEF 14A

If stockholders approve the amendments to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock and to increase the number of authorized shares of Common Stock, then the amendments will become effective upon filing a certificate of amendment to our certificate of incorporation with the Secretary of State of the State of Delaware, which filing we expect to make soon after the Annual Meeting.

**Table of Contents**

**DATE FOR STOCKHOLDER PROPOSALS**

Proposals of stockholders pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 intended to be presented at the 2017 Annual Meeting of Stockholders must be received by us no later than November 2, 2016, to be considered for inclusion in our proxy materials for the 2017 meeting. If a stockholder who otherwise desires to bring a proposal before the 2017 meeting does not notify us of its intent to do so on or before January 16, 2017, then the proposal will be untimely, and the proxies will be able to vote on the proposal in their discretion.

March 2, 2016

**Table of Contents**

**Appendix A**

**ARTICLE XI**

**EXCLUSIVE FORUM**

Unless the corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee of the corporation to the corporation or the corporation's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, the Certificate of Incorporation or these By-Laws (in each case, as they may be amended from time to time), or (iv) any action asserting a claim governed by the internal affairs doctrine shall be a state court located within the State of Delaware (or, if no state court located with the State of Delaware has jurisdiction, the United States District Court for the District of Delaware).

A-1

**Table of Contents**

**Appendix B**

The proposed amendments to our Amended and Restated Certificate of Incorporation under the proposal to increase the number of authorized shares of Common Stock and the proposal to increase the number of authorized shares of Class A Common Stock would amend and restate the first paragraph of Article 4 of our Amended and Restated Certificate of Incorporate to read as follows (proposed additions are indicated by underlining and proposed deletions are indicated by overstriking):

The aggregate number of shares which the corporation has the authority to issue shall be ~~one hundred thirty seven million~~ two hundred seventy million ~~(137,000,000)~~ (270,000,000) shares, consisting of:

(a) ~~fourteen~~ twenty seven million ~~(14,000,000)~~ (27,000,000) shares designated as Class A Common Stock, with a par value of Five Dollars (\$5) per share;

(b) ~~one hundred twenty~~ two hundred forty million ~~(120,000,000)~~ (240,000,000) shares designated as Common Stock, with a par value of One Dollar (\$1) per share; and

(c) three million (3,000,000) shares designated as Preferred Stock, with a par value of One Dollar (\$1) per share.

B-1

**Table of Contents**

**Table of Contents**

Shareowner Services

P.O. Box 64945

St. Paul, MN 55164-0945

**A. O. SMITH CORPORATION  
ANNUAL MEETING OF STOCKHOLDERS**

**Monday, April 11, 2016**

**5:15 p.m. Eastern Daylight Time**

**(Meeting location and directions on back page.)**

**Important Notice Regarding the Availability of Proxy Materials for the Stockholders**

**Meeting to be Held on April 11, 2016.**

**Notice is hereby given that the Annual Meeting of Stockholders of A. O. Smith Corporation will be held at the Business Roundtable, 300 New Jersey Avenue, N.W., Suite 800, Washington, D.C. on Monday, April 11, 2016, at 5:15 p.m. Eastern Daylight Time.**

**This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting.**

**The Proxy Statement and Annual Report are available at [www.proxydocs.com/aos](http://www.proxydocs.com/aos)**

**If you want to receive a paper copy or an e-mail with links to the electronic materials, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed on the reverse side of this notice on or before March 28, 2016, to facilitate timely delivery.**

**Matters intended to be acted upon at the meeting are listed below.**

**The Board of Directors recommends that you vote FOR proposals 1, 2, 3, 4, 5 and 6:**

1. Election of our Directors;
2. Approval, by nonbinding advisory vote, of compensation for our named executive officers;

3. Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm;
4. Ratification of an amendment to our By-Laws to designate Delaware as the exclusive forum for the adjudication of certain disputes;
5. Approval of an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock;
6. Approval of an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock; and
7. To consider and act upon such other business as may properly come before the Annual Meeting.

**THIS IS NOT A FORM FOR VOTING**

**You may immediately vote your proxy on the Internet at:**

**[www.proxypush.com/aos](http://www.proxypush.com/aos)**

Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 11:59 p.m. (CDT) on April 7, 2016.

Please have this Notice and the last four digits of your Social Security Number or Tax Identification Number available. Follow the instructions to vote your proxy.

**Your Internet vote authorizes the Named Proxies to vote your shares in the same manner as if you marked, signed and returned your Proxy Card.**

**Table of Contents**

**To request paper copies of the proxy materials, which include the Proxy Card, Proxy Statement and Annual Report, please contact us via:**

**Internet/Mobile** - Access the Internet and go to [www.investorelections.com/aos](http://www.investorelections.com/aos). Follow the instructions to log in, and order copies.

**Telephone** - Call us free of charge at 866-870-3684 in the U.S. or Canada, using a touch-tone phone, and follow the instructions to log in and order copies.

**Email** - Send us an email at [paper@investorelections.com](mailto:paper@investorelections.com) with aos Materials Request in the subject line. The email must include:

The 11-digit control # located in the box in the upper right-hand corner on the front of this Notice.

Your preference to receive printed materials via mail **-or-** to receive an email with links to the electronic materials.

If you choose email delivery, you must include the email address.

If you would like this election to apply to delivery of material for all future meetings, write the word Permanent and include the last 4 digits of your Social Security or Tax Identification number in the email.

**Important Information about the Notice of Proxy Materials**

This Notice Regarding the Online Availability of Proxy Materials (Notice) is provided to stockholders in place of the printed materials for the upcoming Stockholders Meeting.

**Information about the Notice:**

In 2007, the Securities and Exchange Commission adopted a voluntary rule permitting Internet-based delivery of proxy materials. Companies can now send Notices, rather than printed proxy materials to shareholders. This may help lower mailing, printing and storage costs for the company, while minimizing environmental impact. This Notice contains specific information regarding the meeting, proposals and the Internet site where the proxy materials may be found.

**To view the proxy materials online:**

Please refer to the instructions in this Notice on how to access and view the proxy materials online, including the Proxy Card, Annual Report and Proxy Statement.

**To receive paper copies of the proxy materials:**



Please refer to the instructions in this Notice on how to request hard copies of proxy materials via phone, email or Internet.

**Directions to Annual Meeting of Stockholders on April 11, 2016:**

**Location:** The Business Roundtable

300 New Jersey Avenue, N.W., Suite 800

Washington, D.C. 20001

**Directions:** From Ronald Reagan Washington National Airport: Take George Washington Memorial Parkway to I-395 North. From I-395 North, take Exit 9 to D Street N.W. Follow D Street to the Business Roundtable on right.

**Table of Contents**

Shareowner Services  
P.O. Box 64945  
  
St. Paul, MN 55164-0945

**Vote by Internet, Telephone or Mail**

**24 Hours a Day, 7 Days a Week**

Please have available the  
  
Control Number located at the top of this  
page,  
  
along with the last four digits of your  
Social Security  
  
Number or Tax Identification Number.  
  
Your phone 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.

**INTERNET/MOBILE**    [www.proxypush.com/aos](http://www.proxypush.com/aos)

Use the Internet to vote your proxy until 11:59 p.m.  
(CDT) on April 7, 2016.

**PHONE**    **1-866-883-3382**

Use a touch-tone telephone to vote your proxy until  
11:59 p.m. (CDT) on April 7, 2016.

**MAIL** Mark, sign and date your Proxy Card and return it in the postage-paid envelope provided or return it to A. O. SMITH CORPORATION, c/o Shareowner Services, P.O. Box 64873, St. Paul, MN 55164-0873. Your proxy must be received by April 8, 2016.

**IF YOU VOTE BY INTERNET OR TELEPHONE, PLEASE DO NOT MAIL YOUR PROXY CARD.**

ò Please fold here Do not separate. ò

**A. O. SMITH CORPORATION 2016 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, 2, 3, 4, 5 and 6.

1.	Election of directors:	01	Gloster B. Current, Jr.	03	Idelle K. Wolf	“ Vote FOR	“ Vote WITHHOLD
		02	William P. Greubel	04	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, by nonbinding advisory vote, the compensation of our named executive officers:	“ For	“ Against	“ Abstain
3.	Proposal to ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the corporation:	“ For	“ Against	“ Abstain
4.	Proposal to ratify an amendment to our By-Laws to designate Delaware as the exclusive forum for adjudication of certain disputes:	“ For	“ Against	“ Abstain
5.	Proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock:	“ For	“ Against	“ Abstain
6.	Proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common stock:	“ For	“ Against	“ Abstain

**Directors recommend a vote FOR proposals 1, 2, 3, 4, 5 and 6.**

I plan to attend meeting. “

Date \_\_\_\_\_

**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.

**Table of Contents**

**ANNUAL MEETING OF STOCKHOLDERS**

**Monday, April 11, 2016**

**5:15 p.m. Eastern Daylight Time**

The Business Roundtable

300 New Jersey Avenue, N.W. Suite 800

Washington, D.C.

**A. O. SMITH CORPORATION**

**PROXY - COMMON STOCK**

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

The undersigned hereby appoints AJITA G. RAJENDRA, JOHN J. KITA and JAMES F. STERN, 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, 2016, at 5:15 p.m. Eastern Daylight Time, at the Business Roundtable, 300 New Jersey Avenue, N.W. Suite 800, Washington, D.C., 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, 2, 3, 4, 5 and 6.**

**PLEASE VOTE BY INTERNET OR TELEPHONE OR MARK, SIGN, DATE**

**AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.**

*See reverse for voting instructions.*

**Table of Contents**

Shareowner Services  
P.O. Box 64945  
  
St. Paul, MN 55164-0945

**Vote by Internet, Telephone or Mail**

**24 Hours a Day, 7 Days a Week**

Please have available the  
  
Control Number located at the top of this  
page,  
  
along with the last four digits of your  
Social Security  
  
Number or Tax Identification Number.  
  
Your phone 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.

**INTERNET/MOBILE**    [www.proxypush.com/aos](http://www.proxypush.com/aos)

Use the Internet to vote your proxy until 11:59 p.m.  
(CDT) on April 7, 2016.

**PHONE**    **1-866-883-3382**

Use a touch-tone telephone to vote your proxy until  
11:59 p.m. (CDT) on April 7, 2016.

**MAIL** Mark, sign and date your Proxy Card and return it in the postage-paid envelope provided or return it to A. O. SMITH CORPORATION, c/o Shareowner Services, P.O. Box 64873, St. Paul, MN 55164-0873. Your proxy must be received by April 8, 2016.

***IF YOU VOTE BY INTERNET OR TELEPHONE, PLEASE DO NOT MAIL YOUR PROXY CARD.***

ò *Please fold here Do not separate.* ò

**A. O. SMITH CORPORATION 2016 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, 2, 3, 4, 5 and 6.

- |                           |    |                   |    |                     |                    |          |
|---------------------------|----|-------------------|----|---------------------|--------------------|----------|
| 1. Election of directors: | 01 | Ronald D. Brown   | 04 | Mathias F. Sandoval | “ Vote FOR         | “ Vote   |
|                           |    |                   |    |                     |                    | WITHHOLD |
|                           | 02 | Paul W. Jones     | 05 | Bruce M. Smith      | all nominees       | from all |
|                           | 03 | Ajita G. Rajendra | 06 | Mark D. Smith       | (except as marked) | nominees |

**(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, by nonbinding advisory vote, the compensation of our named executive officers:  | “ For | “       | “       |
|   |       | Against | Abstain |
| 3. Proposal to ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the corporation:                               | “ For | “       | “       |
|   |       | Against | Abstain |
| 4. Proposal to ratify an amendment to our By-Laws to designate Delaware as the exclusive forum for the adjudication of certain disputes:                          | “ For | “       | “       |
|   |       | Against | Abstain |
| 5. Proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock:         | “ For | “       | “       |
|   |       | Against | Abstain |
| 6. Proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock: | “ For | “       | “       |
|   |       | Against | Abstain |

**Directors recommend a vote FOR proposals 1, 2, 3, 4, 5 and 6.**

I plan to attend meeting. “

Date \_\_\_\_\_

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.



**Table of Contents**

**ANNUAL MEETING OF STOCKHOLDERS**

**Monday, April 11, 2016**

**5:15 p.m. Eastern Daylight Time**

The Business Roundtable

300 New Jersey Avenue, N.W., Suite 800

Washington, D.C.

**A. O. SMITH CORPORATION**

**PROXY CLASS A COMMON STOCK**

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

The undersigned hereby appoints AJITA G. RAJENDRA, JOHN J. KITA and JAMES F. STERN, 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, 2016, at 5:15 p.m. Eastern Daylight Time, at the Business Roundtable, 300 New Jersey Avenue, N.W., Suite 800, Washington, D.C., 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, 2, 3, 4, 5 and 6.**

**PLEASE VOTE BY INTERNET OR TELEPHONE OR MARK, SIGN, DATE**

**AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.**

*See reverse for voting instructions.*