
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006.

OR

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

For the transition period from _____ to _____

Commission File Number 1-475



Delaware
(State of Incorporation)

39-0619790
(IRS Employer ID Number)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. LARGE ACCELERATED FILER ACCELERATED FILER NON-ACCELERATED FILER

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

Class A Common Stock Outstanding as of June 30, 2006 — 8,277,225 shares

Common Stock Outstanding as of June 30, 2006 — 22,353,462 shares

Exhibit Index Page 28

[Table of Contents](#)

Index

A. O. Smith Corporation

[Part I. Financial Information](#)

[Item 1. Financial Statements \(Unaudited\)](#)

[Condensed Consolidated Statements of Earnings](#)

- Three and six months ended June 30, 2006 and 2005

3

[Condensed Consolidated Balance Sheets](#)

- June 30, 2006 and December 31, 2005

4

[Condensed Consolidated Statements of Cash Flows](#)

- Six months ended June 30, 2006 and 2005

5

[Notes to Condensed Consolidated Financial Statements](#)

- June 30, 2006

6-15

[Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

16-22

[Item 3. Quantitative and Qualitative Disclosure of Market Risk](#)

23

[Item 4. Controls and Procedures](#)

23

[Part II. Other Information](#)

[Item 1. Legal Proceedings](#)

25

[Item 4. Submission of Matters to a Vote of Security Holders](#)

25

[Item 5. Other Information](#)

26

[Item 6. Exhibits and Reports on Form 8-K](#)

26

[Signatures](#)

27

[Index to Exhibits](#)

28

Exhibit 3(i)

29-43

Exhibit 3(ii)

44-59

Exhibit 31.1

60-61

Exhibit 31.2

62-63

Exhibit 32

64

PART 1 - FINANCIAL INFORMATION**ITEM 1 - FINANCIAL STATEMENTS**

A. O. SMITH CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
Three and Six Months ended June 30, 2006 and 2005
(dollars in millions, except for per share data)
(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Electrical Products	\$ 254.1	\$ 234.5	\$ 483.3	\$ 441.6
Water Systems	342.9	204.0	574.3	406.5
Inter-segment sales	(2.5)	(0.8)	(3.9)	(1.2)
Net Sales	594.5	437.7	1,053.7	846.9
Cost of products sold	467.9	353.5	828.2	674.6
Gross Profit	126.6	84.2	225.5	172.3
Selling, general and administrative expenses	85.9	60.4	154.4	122.8
Restructuring and other charges	1.8	8.6	3.3	9.5
Interest expense	7.5	3.5	10.5	6.9
Other (income) expense - net	(4.8)	0.7	(0.4)	0.8
	36.2	11.0	57.7	32.3
Provision for income taxes	11.3	4.5	17.3	11.5
Earnings from continuing operations	24.9	6.5	40.4	20.8
Discontinued operations after tax	0.2	—	0.2	—
Net Earnings	\$ 25.1	\$ 6.5	\$ 40.6	\$ 20.8
Earnings per Common Share				
Basic				
Continuing operations	\$ 0.82	\$ 0.22	\$ 1.33	\$ 0.71
Discontinued operations	0.01	—	0.01	—
Net	<u>\$ 0.83</u>	<u>\$ 0.22</u>	<u>\$ 1.34</u>	<u>\$ 0.71</u>
Diluted				
Continuing operations	\$ 0.80	\$ 0.22	\$ 1.30	\$ 0.69
Discontinued operations	0.01	—	0.01	—
Net	<u>\$ 0.81</u>	<u>\$ 0.22</u>	<u>\$ 1.31</u>	<u>\$ 0.69</u>
Dividends per Common Share	\$ 0.16	\$ 0.16	\$ 0.32	\$ 0.32

See accompanying notes to unaudited condensed consolidated financial statements

[Table of Contents](#)**PART 1 - FINANCIAL INFORMATION****ITEM 1 - FINANCIAL STATEMENTS**

A. O. SMITH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
June 30, 2006 and December 31, 2005
(dollars in millions)

	(unaudited) June 30, 2006	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 45.3	\$ 24.0
Receivables	417.2	278.8
Inventories	293.4	225.4
Deferred income taxes	0.4	9.9
Other current assets	79.6	37.9
Current assets held for sale	24.0	—
Total Current Assets	859.9	576.0
Property, plant and equipment	888.9	805.2
Less accumulated depreciation	473.0	448.3
Net property, plant and equipment	415.9	356.9
Goodwill	475.9	313.0
Other intangibles	92.3	10.5
Deferred income taxes	12.1	3.4
Other assets	64.9	32.9
Total Assets	\$ 1,921.0	\$ 1,292.7
Liabilities		
Current Liabilities		
Trade payables	\$ 304.9	\$ 205.1
Accrued payroll and benefits	42.6	33.5
Accrued liabilities	79.5	44.8
Product warranty	32.1	17.3
Long-term debt due within one year	6.9	6.9
Current liabilities held for sale	3.3	—
Total Current Liabilities	469.3	307.6
Long-term debt	504.4	162.4
Pension liability	120.8	110.4
Other liabilities	164.8	99.4
Total Liabilities	1,259.3	679.8
Stockholders' Equity		
Class A Common Stock, \$5 par value: authorized 14,000,000 shares; issued 8,309,820	41.5	42.5
Common Stock, \$1 par value: authorized 60,000,000 shares; issued 24,239,642	24.2	24.0
Capital in excess of par value	69.8	65.9
Retained earnings	706.8	675.9
Accumulated other comprehensive loss	(124.0)	(136.4)
Treasury stock at cost	(56.6)	(59.0)
Total Stockholders' Equity	661.7	612.9
Total Liabilities and Stockholders' Equity	\$ 1,921.0	\$ 1,292.7

See accompanying notes to unaudited condensed consolidated financial statements

[Table of Contents](#)**PART 1 - FINANCIAL INFORMATION****ITEM 1 - FINANCIAL STATEMENTS**

A. O. SMITH CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Six Months ended June 30, 2006 and 2005
(dollars in millions)
(unaudited)

	Six Months Ended June 30	
	2006	2005
Operating Activities		
Net earnings	\$ 40.6	\$ 20.8
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	30.9	26.0
Net change in current assets and liabilities, net of acquisitions	(30.6)	0.3
Net change in other noncurrent assets and liabilities, net of acquisitions	(11.1)	2.7
Other, net of acquisitions	1.5	0.9
Cash Provided by Operating Activities	<u>31.3</u>	<u>50.7</u>
Investing Activities		
Capital expenditures	(24.8)	(16.4)
Acquisition of businesses	(329.0)	—
Proceeds from sale of investments	48.3	—
Purchase of investments	(36.0)	—
Cash Used in Investing Activities	<u>(341.5)</u>	<u>(16.4)</u>
Financing Activities		
Long-term debt incurred	341.3	—
Long-term debt retired	(4.4)	(44.2)
Other stock transactions	6.4	6.1
Dividends paid	(9.7)	(9.4)
Cash Provided by (Used in) Financing Activities	<u>333.6</u>	<u>(47.5)</u>
Cash Used in Discontinued Operations	<u>(2.1)</u>	<u>—</u>
Net increase (decrease) in cash and cash equivalents	21.3	(13.2)
Cash and cash equivalents - beginning of period	24.0	25.1
Cash and Cash Equivalents - End of Period	<u>\$ 45.3</u>	<u>\$ 11.9</u>

See accompanying notes to unaudited condensed consolidated financial statements

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

A. O. SMITH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three- and six-month periods ended June 30, 2006 are not necessarily indicative of the results expected for the full year. It is suggested that the accompanying condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the company's latest Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the 2006 presentation.

2. Acquisition

On April 3, 2006, the company acquired GSW Inc. ("GSW"), a publicly traded Canadian-based manufacturer which operates in two business segments: water heaters and building products. The water heating segment manufactures and markets water heaters sold in the U.S. and Canada through its American Water Heater Company ("American") and GSW Water Heater subsidiaries. The addition of GSW to the company's existing water heater operations expands the company's share of the growing retail channel of the U. S. residential water heater market as well as increasing its presence in the Canadian residential water heater market. The company is continuing to explore its strategic alternatives for the building products business and has engaged consultants and placed the building products business for sale. For accounting purposes, the building products business is reported as a discontinued operation. The company expects to complete the sale by the end of this year.

The aggregate purchase price, net of \$39.9 million of cash acquired, was \$306.4 million. This was comprised of \$339.3 million for the outstanding stock and \$7.0 million of acquisition costs principally incurred in 2005 and included in other assets at December 31, 2005. In addition, \$27.7 million of payments for change in control provisions were paid in April 2006.

2. Acquisition (continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The company is in the process of finalizing third-party appraisal of property, plant and equipment and valuation of certain intangible assets and, therefore, the allocation of the purchase price is subject to refinement. The non-deductible goodwill has been recorded within the Water Systems segment. Of the \$81.4 million of acquired intangible assets, \$40.7 million was assigned to trademarks that are not subject to amortization and \$40.7 million was assigned primarily to customer lists which have amortization periods ranging from 10 - 25 years.

April 3, 2006 (dollars in millions)	
Current assets, net of cash acquired	\$159.0
Current assets held for sale	15.0
Property, plant and equipment	62.8
Intangible assets	81.4
Goodwill	160.9
Other assets	45.6
Total assets acquired	524.7
Current liabilities	134.1
Current liabilities held for sale	4.4
Long-term liabilities	79.8
Total liabilities assumed	218.3
Net assets acquired	\$306.4

The acquisition was accounted for using the purchase method of accounting, and accordingly, the results of operations have been included in the company's financial statements from the April 3, 2006 date of acquisition.

The pro forma unaudited results of operations for the six month periods ended June 30, 2006 and 2005, respectively, assuming consummation of the purchase as of January 1, 2005, are as follows (dollars in millions except per share data):

	Six months ended	
	June 30,	
	2006	2005
Net sales	\$1,183.2	\$1,083.8
Earnings from continuing operations	44.4	30.1
Net earnings	44.3	30.8
Earnings per common share:		
Basic		
Continuing operations	\$ 1.46	\$ 1.02
Discontinued operations	—	.02
Net	<u>\$ 1.46</u>	<u>\$ 1.04</u>
Diluted		
Continuing operations	\$ 1.43	\$ 1.00
Discontinued operations	—	.02
Net	<u>\$ 1.43</u>	<u>\$ 1.02</u>

[Table of Contents](#)

2. Acquisition (continued)

The pro forma results have been prepared for informational purposes only and include adjustments to depreciation expense of acquired plant and equipment, amortization of intangible assets other than goodwill and trademarks, increased interest expense on acquisition debt, and certain other adjustments, together with related income tax effects of such adjustments. Anticipated efficiencies from the consolidation of manufacturing and commercial activities and anticipated lower material costs related to the consolidation of purchasing have been excluded from the pro forma operating results. These pro forma results do not purport to be indicative of the results of operations that would have occurred had the purchases been made as of the beginning of the periods presented or of the results of operations that may occur in the future.

3. Inventories (dollars in millions)

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Finished products	\$ 184.9	\$ 145.9
Work in process	58.4	48.5
Raw materials	105.1	86.0
	<u>348.4</u>	<u>280.4</u>
LIFO reserve	55.0	55.0
	<u>\$ 293.4</u>	<u>\$ 225.4</u>

4. Goodwill

Changes in the carrying amount of goodwill during the six month period ended June 30, 2006 consisted of the following (dollars in millions):

	<u>Electrical Products</u>	<u>Water Systems</u>	<u>Total</u>
Balance at December 31, 2005	\$ 245.8	\$ 67.2	\$313.0
Acquisition of business (see Note 2)	—	160.9	160.9
Foreign currency translation	—	2.0	2.0
Balance at June 30, 2006	<u>\$ 245.8</u>	<u>\$230.1</u>	<u>\$475.9</u>

5. Restricted Marketable Securities

As described in Note 2, the company recently acquired GSW. GSW operated a captive insurance company to provide product liability and general liability insurance to its subsidiary American. The company has decided to cover American's prospective liability exposures with its existing insurance programs and all product liability claims for events which occurred prior to July 1, 2006 will be financed by the captive. The reinsurance company restricts the amount of capital which must be maintained by the captive and this restricted amount is \$37.2 million at June 30, 2006. The \$37.2 million of restricted marketable securities are included in other assets on the company's balance sheet at June 30, 2006.

6. Long-Term Debt

On February 17, 2006, in support of the GSW acquisition (see Note 2), the company completed the \$425 million multi-currency revolving credit agreement with ten banks. The facility expires in 2011 and has an accordion provision which allows it to be increased up to \$500 million. Borrowing rates under the facility are determined by the company's leverage ratio.

On April 3, 2006, the company's Canadian subsidiary issued \$30 million (Canadian) in term notes with two insurance companies. The notes expire in 2018 and carry an average interest rate of 5.3%.

Borrowings under the company's bank credit lines and commercial paper borrowings are supported by the \$425 million revolving credit agreement. As a result of the long-term nature of this facility, the commercial paper and credit line borrowings are classified as long-term debt.

7. Product Warranty (dollars in millions)

The company offers warranties on the sales of certain of its products and records an accrual for the estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims. The following table presents the company's warranty liability activity for the six-months ended June 30, 2006 and 2005, respectively:

	<u>2006</u>	<u>2005</u>
Balance at January 1	\$ 52.4	\$ 59.8
GSW balance acquired (see Note 2)	38.3	—
Expense	26.6	12.3
Claims settled	(23.2)	(19.5)
Balance at June 30	<u>\$ 94.2</u>	<u>\$ 52.6</u>

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

[Table of Contents](#)**8. Comprehensive Earnings (dollars in millions)**

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

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Net earnings	\$ 25.1	\$ 6.5	\$ 40.6	\$ 20.8
Other comprehensive earnings (loss):				
Foreign currency translation adjustments	(7.4)	(0.7)	(7.4)	(0.8)
Unrealized net gains (losses) on cash flow derivative instruments less related income tax provision (benefit): 2006 - \$9.2 & \$12.7, 2005 - \$(2.2) & \$(1.7)	14.3	(3.4)	19.8	(2.7)
Comprehensive earnings	<u>\$ 32.0</u>	<u>\$ 2.4</u>	<u>\$ 53.0</u>	<u>\$ 17.3</u>

9. Earnings per Share of Common Stock

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

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Denominator for basic earnings per share - weighted average shares	30,399,110	29,532,444	30,337,572	29,470,866
Effect of dilutive stock options	661,043	598,495	654,847	597,374
Denominator for diluted earnings per share	<u>31,060,153</u>	<u>30,130,939</u>	<u>30,992,419</u>	<u>30,068,240</u>

10. Stock-Based Compensation

General

Effective January 1, 2006, the company adopted Statement of Financial Accounting Standards (“SFAS”) 123(R), “Share-Based Payment” (“SFAS 123(R)”), using the modified-prospective transition method. SFAS 123(R) had no impact on the company’s financial position, statement of operations or cash flows at the date of adoption. SFAS 123(R) requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award at the date of grant. Compensation cost is recognized using the straight-line method over the vesting period of the award.

Prior to the adoption of SFAS 123(R), the company followed the disclosure requirements of SFAS No. 123, “Accounting for Stock-Based Compensation,” which encouraged, but did not require companies to record compensation cost for stock-based employee compensation plans at fair value. Prior to the adoption of SFAS 123(R), the company accounted for share-based compensation in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Accordingly, because the number of shares were fixed and the exercise price of the stock options equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized. Had compensation cost been determined based upon the fair value at the grant date for stock option awards under the plan based on the provisions of SFAS No. 123, the company’s pro forma earnings and earnings per share for the three and six periods ended June 30, 2005, respectively would have been as follows:

<u>(dollars in millions, except per share amounts)</u>	<u>Three Months Ended June 30, 2005</u>	<u>Six Months Ended June 30, 2005</u>
Earnings:		
As reported	\$ 6.5	\$ 20.8
Add: Stock-based employee compensation expense recorded for non-vested stock awards, net of tax	0.4	0.8
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of tax	(0.5)	(1.1)
Pro forma	<u>\$ 6.4</u>	<u>\$ 20.5</u>
Earnings per share:		
As reported:		
Basic	\$ 0.22	\$ 0.71
Diluted	0.22	0.69
Pro forma:		
Basic	\$ 0.22	\$ 0.69
Diluted	0.21	0.68

10. Stock-Based Compensation (continued)

Total stock based compensation cost recognized in the three month period ended June 30, 2006 and 2005 was approximately \$862,000 and \$626,000, respectively. Total stock based compensation cost recognized in the six month period ended June 30, 2006 and 2005 was approximately \$1,752,000 and \$1,237,000, respectively. Stock based compensation cost attributable to stock options in the three and six month periods ended June 30, 2006 was approximately \$216,000 and \$460,000, respectively. As described above, no stock option expense was recognized for the respective three and six month periods ended June 30, 2005.

Stock Options

The company adopted the A. O. Smith Combined Executive Incentive Compensation Plan (the "plan") effective January 1, 2002. The plan superseded and replaced two predecessor incentive compensation plans. The plan provides for the issuance of 1.5 million stock options at exercise prices equal to the fair value of Common Stock on the date of grant. Additionally, any shares that would have been available for stock option grants under either of the predecessor plans, if such plans were in effect, will be available for granting of stock option awards under the plan. The stock options granted in the six month period ended June 30, 2006, become exercisable three years from the date of grant. Of the 131,300 stock options granted in 2005, 26,900 become exercisable one year from date of grant and 104,400 become exercisable three years from date of grant. For active employees, all options granted in 2006 and 2005 expire ten years after date of grant. The number of shares available for granting of options at June 30, 2006, was 275,550.

Changes in option shares, all of which are Common Stock, were as follows for the six months ended June 30, 2006:

	Weighted-Avg. Per Share Exercise Price	Six Months Ended June 30, 2006	Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2006	\$ 22.75	1,920,850		
Granted	36.03	18,000		
Exercised	22.44	(433,800)		
Terminated	—	—		
Outstanding at June 30, 2006	23.00	<u>1,505,050</u>	6 years	<u>\$35,157,968</u>
Exercisable at June 30, 2006	\$ 21.83	<u>1,193,550</u>	7 years	<u>\$29,277,782</u>

10. Stock-Based Compensation (continued)

The weighted-average fair value per option at the date of grant during the six months ended June 30, 2006 and 2005, using the Black-Scholes option-pricing model, was \$12.94 and \$10.97, respectively. Assumptions were as follows:

	Six Months Ended June 30,	
	2006	2005
Expected life (years)	6.4	6.5
Risk-free interest rate	4.4%	4.3%
Dividend yield	2.2%	2.2%
Expected volatility	38.0%	43.3%

The expected life is based on historical exercise behavior and the projected exercise of unexercised stock options. The risk free interest rate is based on the U.S. Treasury yield curve in effect on the date of grant for the respective expected life of the option. The expected dividend yield is based on the expected annual dividends divided by the grant date market value of our common stock. The expected volatility is based on the historical volatility of our common stock.

Non-vested stock

Participants may also be awarded shares of non-vested stock under the plan. The company granted 21,000 and 18,000 shares of non-vested Common Stock under the plan in the six month periods ended June 30, 2006 and 2005, respectively. The restricted shares were valued at approximately \$757,000 and \$414,000 at the date of issuance in 2006 and 2005, respectively, based on the company's stock price at the date of grant and will be recognized as compensation expense ratably over the three-year vesting period. Non-vested stock compensation expense of approximately \$646,000 and \$626,000 was recognized in the three month period ended June 30, 2006 and 2005, respectively. Non-vested stock compensation expense of approximately \$1,292,000 and \$1,237,000 was recognized in the six month period ended June 30, 2006 and 2005, respectively.

A summary of non-vested stock activity under the plan is as follows:

	Number of Units	Weighted-Average Grant Date Value
Outstanding at January 1, 2006	382,100	\$ 26.23
Granted	21,000	36.03
Outstanding at June 30, 2006	<u>403,100</u>	<u>28.11</u>

[Table of Contents](#)

11. Pensions (dollars in millions)

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

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Service cost	\$ 3.0	\$ 2.4	\$ 5.4	\$ 4.7
Interest cost	11.2	11.9	22.9	23.3
Expected return on plan assets	(15.0)	(15.8)	(29.9)	(30.7)
Amortization of net actuarial loss	3.7	2.9	7.3	5.0
Amortization of prior service cost	0.2	0.3	0.3	0.3
Defined benefit plan expense	<u>\$ 3.1</u>	<u>\$ 1.7</u>	<u>\$ 6.0</u>	<u>\$ 2.6</u>

The company expects to make contributions of approximately \$2.0 million in 2006 for two defined benefit plans acquired from GSW.

12. Operations by Segment (dollars in millions)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Net sales				
Electrical Products	\$ 254.1	\$ 234.5	\$ 483.3	\$ 441.6
Water Systems	342.9	204.0	574.3	406.5
Inter-Segment Sales	(2.5)	(0.8)	(3.9)	(1.2)
	<u>\$ 594.5</u>	<u>\$ 437.7</u>	<u>\$ 1,053.7</u>	<u>\$ 846.9</u>
Operating earnings				
Electrical Products ⁽¹⁾	\$ 16.6	\$ 6.0	\$ 30.1	\$ 18.5
Water Systems	33.2	18.8	59.1	39.7
Inter-segment earnings	(0.1)	—	(0.1)	—
	49.7	24.8	89.1	58.2
Corporate expenses ⁽²⁾	(6.0)	(10.3)	(20.9)	(19.0)
Interest expense	(7.5)	(3.5)	(10.5)	(6.9)
Earnings before income taxes	36.2	11.0	57.7	32.3
Provision for income taxes	(11.3)	(4.5)	(17.3)	(11.5)
Earnings from continuing operations	<u>\$ 24.9</u>	<u>\$ 6.5</u>	<u>\$ 40.4</u>	<u>\$ 20.8</u>

⁽¹⁾ reflects pre-tax restructuring and other charges of: \$ 1.8 \$ 7.4 \$ 3.0 \$ 8.3

⁽²⁾ reflects pre-tax restructuring and other charges of: \$ — \$ 1.2 \$ 0.3 \$ 1.2

13. Restructuring and Other Charges*Electrical Products Restructuring and Other Costs*

In 2005, Electrical Products announced their intention to close the motor operation in Bray, Ireland which supplied large commercial hermetic motors to European air conditioning and refrigeration customers. Pre-tax restructuring and related charges of \$7.0 million were recognized in 2005 related to the Bray plant closure. No tax deduction is available in Ireland for restructuring costs and no additional charges have been recognized in 2006 related to the Bray plant closure. The Bray closure was substantially complete as of June 30, 2005 and is expected to generate annual savings of more than \$3.0 million beginning in 2006.

In 2005 the company announced an additional restructuring initiative associated with product repositioning programs at its domestic motor plants. Restructuring and related charges of \$5.4 million were recognized in 2005 for the domestic repositioning activities.

An additional \$1.2 million and \$2.4 million of expense was recognized in the three and six month periods ended June 30, 2006, respectively, for the domestic repositioning activities. The domestic repositioning activities announced as of June 30, 2006 are substantially complete as of that date and are expected to generate annual pre-tax savings of approximately \$5.0 million.

Additionally, Electrical Products recognized an asset impairment charge of approximately \$0.6 million during the three month period ended June 30, 2006. This charge, which relates to two idle manufacturing facilities that are held for sale, was recorded to reflect the carrying value of the two properties at their estimated net realizable value.

The following table presents an analysis of the company's Electrical Products restructuring reserve as of and for the six month period ended June 30, 2006 (dollars in millions):

	Severance Costs	Lease Cancellation Costs	Asset Impairment	Other	Total
Balance at December 31, 2005	\$ 1.2	\$ 1.5	\$ 0.5	\$ —	\$ 3.2
Expense recognized	1.6	—	1.1	0.3	3.0
Cash payments	(2.0)	(1.4)	(0.1)	(0.3)	(3.8)
Balance at June 30, 2006	<u>\$ 0.8</u>	<u>\$ 0.1</u>	<u>\$ 1.5</u>	<u>\$ —</u>	<u>\$ 2.4</u>

Other Charges – Tower Automotive, Inc.

The company was the primary lessee on a facility lease in Corydon, Indiana related to a business sold to Tower Automotive, Inc. (Tower) in 1997. The company entered into a sublease arrangement with Tower in 1997 with the same terms and conditions as the company lease. Tower filed for bankruptcy on February 2, 2005 and subsequently notified the company that it would reject the sublease arrangement effective October 1, 2005. In order to minimize costs, the company purchased the Corydon facility for \$4.5 million on October 11, 2005. The company recognized a \$1.2 million expense during the three month period ended June 30, 2005, related to this facility which represents the company's estimate of its ultimate net loss upon disposition.

PART I - FINANCIAL INFORMATION

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

SECOND QUARTER AND FIRST SIX MONTHS OF 2006 COMPARED TO 2005

GSW Inc. Acquisition

On April 3, 2006, we acquired GSW Inc. ("GSW"), a Canadian-based manufacturer which operates in two business segments: water heaters and building products. The water heating segment manufactures and markets water heaters sold in the U.S. and Canada through its American Water Heater Company ("American") and GSW Water Heater subsidiaries. The addition of GSW to our existing water heater operations expands our share of the growing retail channel of the U. S. residential water heater market as well as increasing our presence in the Canadian residential water heater market. We are continuing to explore our strategic alternatives for the building products business and have engaged consultants and placed the building products business for sale. For accounting purposes, the building products business is reported as a discontinued operation. We expect to complete the sale by the end of this year.

Overall

Sales increased to a record \$594.5 million, an increase of \$156.8 million from sales of \$437.7 million in the second quarter of 2005. Sales for the first half of 2006 were \$1,053.7 million or \$206.8 million higher than sales of \$846.9 million in the same period last year. The GSW acquisition contributed \$117.8 million to the sales increase in both the second quarter and first half of 2006. Improved residential and commercial water heater markets, significantly higher sales for the China water heater operation, increased electric motor sales to the HVAC and distribution markets and sales from the Yueyang Zhongmin ("Yueyang") motor operation acquired in the fourth quarter of 2005, accounted for the remainder of the sales increase.

Our gross profit margin in the second quarter of 2006 increased to 21.3 percent from 19.2 percent in the same period last year. The gross profit margin for the first half of 2006 was 21.4 percent compared with 20.3 percent in the first six months of 2005. The improved margins were due primarily to higher unit volumes.

Selling, general and administrative (SG&A) expenses in the second quarter and first half of 2006 were higher than the same periods in 2005 by \$25.5 million and \$31.6 million, respectively. The increases are due to the GSW acquisition, higher selling and advertising costs in support of increased sales volumes and higher pension costs and corporate expenses.

Interest expense for the second quarter was \$7.5 million or \$4.0 million higher than the second quarter of 2005 due to additional debt related to the GSW acquisition. Interest expense for the first half of 2006 was \$10.5 million or \$3.6 million higher than the comparable period in 2005 as acquisition related financing costs were partially offset by the impact of lower debt levels in the first quarter of 2006.

Pension expense in the second quarter of 2006 was \$3.1 million or \$1.4 million higher than the second quarter of 2005. Pension expense for the first half of 2006 was \$6.0 million or \$3.4

[Table of Contents](#)

million higher than the same period in 2005. Total pension expense for 2006 is projected to be \$12.1 million. Pension expense associated with the GSW acquisition was \$0.4 million in the second quarter and is projected to be \$1.2 million for the nine months ending December 31, 2006.

Our effective tax rate increased from 28 percent in the first quarter of 2006 to 31.2 percent in the second quarter and was primarily due to the addition of GSW and the impact of this entity being located in the relatively high taxed countries of Canada and the United States. The effective tax rate in the second quarter of 2005 was 40.5 percent due to the non-deductibility of the restructuring charge for foreign operations recognized in that quarter. The effective tax rate for the first half of 2006 was 30 percent compared with 35.6 percent in the same period of 2005. The higher rate in 2005 was influenced by the aforementioned non-deductible foreign restructuring charge.

Net earnings in the second quarter of 2006 were \$25.1 million or \$.81 per share compared with \$6.5 million or \$.22 per share in the second quarter of 2005. Second quarter net earnings in 2006 included \$0.2 million or \$.01 per share for the Building Products business of GSW which is accounted for as a discontinued operation. Also included in the second quarter of 2006 was a \$3.2 million after tax foreign currency gain associated with the GSW acquisition. This gain, which was recorded as other income, offset a first quarter loss on foreign currency contracts of approximately the same amount. Our 2005 second quarter net earnings were reduced by an after-tax charge of \$7.9 million or \$.26 per share for restructuring and other charges primarily related to the closing of our Bray, Ireland motor facility. Our net earnings for the first six months of 2006 were \$40.6 million or \$1.31 per share inclusive of the Building Products earnings mentioned previously. Our net earnings for the first six months of 2005 were \$20.8 million or \$.69 per share and were reduced by an after tax charge of \$8.5 million or \$.28 per share for restructuring and other charges.

Electrical Products

Second quarter sales for our Electrical Products segment were a record \$254.1 million or \$19.6 million higher than sales of \$234.5 million in the same quarter of 2005. Year-to-date sales for this segment were \$483.3 million or \$41.7 million higher than the first half of 2005. The improvement in both the second quarter and first half of 2006 was the result of a new commercial hermetic program with an existing customer, the fourth quarter 2005 Yueyang acquisition, higher sales to the distribution market and price increases to offset higher raw material costs.

Operating earnings for our Electrical Products segment in the second quarter of 2006 were \$16.6 million compared with earnings of \$6.0 million in the second quarter of 2005 which were reduced by a \$7.4 million pre-tax restructuring and other charges primarily related to the closure of our Bray, Ireland motor manufacturing facility. The improvement in operating earnings as adjusted for the 2005 restructuring was attributable to higher sales volumes and pricing as well as cost savings from production repositioning activities which more than offset higher costs for raw materials, freight and utilities. First half operating earnings in 2006 were \$30.1 million and compared to 2005 first half earnings of \$18.5 million which were reduced by pre-tax restructuring and other charges of \$8.3 million.

[Table of Contents](#)

Water Systems

Second quarter sales for our Water Systems segment were \$342.9 million in 2006 or \$138.9 million higher than 2005 second quarter sales of \$204.0 million. Excluding \$117.8 million of sales resulting from the addition of GSW, sales increased 10.3 percent reflecting strength in the residential and commercial markets and significantly higher sales for the China water heater facility. First half sales in 2006 were \$574.3 million or \$167.8 million higher than the same period in 2005 due mostly to the GSW acquisition and higher sales in China.

Operating earnings for our Water Systems segment were \$33.2 million in the second quarter of 2006 or \$14.4 million higher than earnings of \$18.8 million in the same quarter of 2005. The improvement in earnings resulted from higher sales in the pre-acquisition water heater business and the addition of GSW. First half operating earnings in 2006 were \$59.1 million or \$19.4 million higher than earnings of \$39.7 million in the same period of 2005.

Outlook

We expect continued strength in the pre-acquisition water heater business resulting from improved residential market penetration, a stronger commercial market segment and continued strength in China. Sales in China for Water Products are expected to exceed \$110 million for the full year, compared with \$86 million in 2005.

At Electrical Products, higher sales and profits in 2006 are expected to result from improved pricing, a new commercial hermetic program with an existing customer, and the fourth quarter 2005 Yueyang acquisition. In addition to the higher volume, earnings will continue to benefit from last year's restructuring initiatives which included the closure of the company's Bray, Ireland operation.

However, these positives will be partially offset by higher than expected steel and freight costs in the second half of the year at both of the company's businesses. Accordingly, the company is maintaining its previous forecast for full year earnings of between \$2.30 and \$2.50 per share.

Liquidity & Capital Resources

Our working capital at June 30, 2006 was \$390.6 million, \$122.2 million greater than at December 31, 2005. The majority of the increase, \$77.6 million including \$17.1 million in cash, was due to the acquisition of GSW on April 3, 2006. The remainder of the increase resulted from \$48.2 million higher accounts receivable balances, which were primarily sales-related increases in our Electrical Products company, and \$16.1 million higher inventory balances, that were partially offset by a \$48.4 million increase in accounts payable balances. In addition, a non-cash after tax increase of approximately \$23.1 million in the value of derivative commodity contracts was recorded in the first six months of 2006. Finally, our working capital included \$20.7 million associated with the Building Products company of GSW, which we have announced is for sale.

Cash provided by operating activities during the first six months of 2006 was \$31.3 million compared with \$50.7 million one year earlier. This decrease from the prior year is due primarily

[Table of Contents](#)

to an increase in working capital requirements. We are projecting cash provided by operating activities for the full year 2006, including cash provided by the GSW operations, to be approximately \$100 million.

Our capital expenditures during the first half of 2006 totaled \$24.8 million compared with \$16.4 million one year ago. The increase is primarily associated with expenditures at GSW in the second quarter and higher spending in our pre-acquisition Water Systems segment. We are projecting 2006 capital spending, including capital spending for GSW, to be between \$60 and \$65 million, and in the same range as expected depreciation and amortization for the year. We believe that our present facilities and planned capital expenditures are sufficient to provide adequate capacity for our operations in 2006.

Our purchase of GSW in Canadian dollars was completed on April 3, 2006 for approximately \$327 million US Dollar equivalent. The purchase was made with a combination of borrowings under our \$425 million multi currency revolving credit facility, commercial paper and Canadian term notes, more fully described in our previous quarter's Form 10-Q. As a result, our total debt increased \$342 million from \$169.3 million at December 31, 2005 to \$511.3 million at June 30, 2006. Our leverage as measured by the ratio of total debt to total capitalization was 44%, up from 22% at the end of 2005 due to the GSW acquisition. We did not enter into any significant operating leases during the second quarter of 2006.

At June 30, 2006, we had available borrowing capacity of \$96.4 million. We believe that the combination of available borrowing capacity and operating cash flow will provide sufficient funds to finance our existing operations for the foreseeable future.

GSW operated a captive insurance company to provide product liability and general liability insurance to its subsidiary American. We have decided to cover American's liability exposures with our existing insurance programs and all product liability claims for events which occurred prior to July 1, 2006 will be financed by the captive. To reduce exposure to interest rates, we sold the captive's fixed income securities with longer maturities and purchased securities that have shorter maturities. The reinsurance company restricts the amount of capital which must be maintained by the captive. At June 30, 2006, the restricted amount was \$37.2 million and is included in other non-current assets.

On July 11, 2006, our board of directors increased the regular quarterly dividend on our Common stock and Class A common stock from \$.16 per share to \$.17 per share, a 6% increase. The dividend is payable on August 15, 2006 to shareholders of record on July 31, 2006.

Critical Accounting Policies

Our accounting policies are described in Note 1 of Notes to Consolidated Financial Statements as disclosed in the Form 10-K for the fiscal year ended December 31, 2005. Also as disclosed in Note 1, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with the evaluation of the impairment of goodwill and indefinite-lived intangible assets, as well as significant estimates used in the determination of liabilities related to warranty activity, product liability, and pensions. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact-specific and takes into account factors such as historical experience and trends, and in some cases, actuarial techniques. We constantly reevaluate these significant factors and adjustments are made when facts and circumstances dictate. Historically, actual results have not significantly deviated from those determined using the estimates described above.

Goodwill and Other Intangible Assets

In conformity with U.S. GAAP, goodwill and other intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. We perform impairment reviews for our reporting units using a fair-value method based on management's judgments and assumptions. The fair value represents the estimated amount at which a reporting unit could be bought or sold in a current transaction between willing parties on an arms-length basis. The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. We are subject to financial statement risk to the extent that goodwill and other intangible assets become impaired. Any impairment review is, by its nature, highly judgmental as estimates of future sales, earnings and cash flows are utilized to determine fair values. However, we believe that we have conducted thorough and competent valuations of goodwill and other intangible assets annually and that there has been no impairment.

Product warranty

Our products carry warranties that generally range from one to ten years and are based on terms that are generally accepted in the market. We provide for the estimated cost of product warranty at the time of sale. The product warranty provision is estimated based upon warranty loss experience using actual historical failure rates and estimated costs of product replacement. The variables used in the calculation of the provision are reviewed on a periodic basis. At times, warranty issues may arise which are beyond the scope of our historical experience. While our warranty costs have historically been within its calculated estimates, it is possible that future

[Table of Contents](#)

warranty costs could differ significantly from those estimates. We provide for any such warranty issues as they become known and estimable. The allocation of the warranty liability between current and long-term is based on the expected warranty liability to be paid in the next year as determined by historical product failure rates.

Product liability

Due to the nature of our products, we are subject to product liability claims in the normal course of business. A substantial portion of these claims involve our Water Systems business, while such claims in our Electrical Products business have historically been limited. We maintain insurance to reduce or eliminate our risk. Most insurance coverage includes self-insured retentions that vary by business segment and by year. As of January 1, 2006, we maintained a self-insured retention of \$5.0 million per occurrence with an aggregate insurance limit of \$125.0 million per occurrence.

GSW insurance coverage includes self-insurance retentions that vary by business segment and by year. Effective April 3, 2006 GSW maintained a \$25.0 million aggregate loss retention through self-insurance and captive insurance company coverage. GSW claims occurring on or after July 1, 2006 will be covered under the Company's insurance program.

We establish product liability reserves for our self-insured retention portion of any known outstanding matters based on the likelihood of loss and our ability to reasonably estimate such loss. There is inherent uncertainty as to the eventual resolution of unsettled matters due to the unpredictable nature of litigation. We make estimates based on available information and our best judgment after consultation with appropriate experts. We periodically revise estimates based upon changes to facts or circumstances. Effective April 3, 2006, we also used an actuary to calculate reserves required for estimated incurred but not reported claims as well as to estimate the effect of adverse development of claims over time.

Pensions

We have significant pension benefit costs that are developed from actuarial valuations. The valuations reflect key assumptions regarding, among other things, discount rates, expected return on assets, retirement ages, and years of service. Consideration is given to current market conditions, including changes in interest rates in making these assumptions. Our assumptions for the expected rate of return on plan assets is 8.75 percent in 2006, unchanged from 2005. The discount rate used to determine net periodic pension costs decreased from 6.0 percent in 2005 to 5.75 percent in 2006.

In developing our expected long-term rate of return assumption, we evaluate our pension plan's target asset allocation, the historical long-term rates of return of equity and bond indices and the actual historical returns of our pension plan. Our plan's target allocation to equity managers is between 60 to 70 percent, with the remainder allocated primarily to bond managers and a small allocation to private equity managers. Due to market fluctuations, our actual asset allocation as of December 31, 2005, was 70 percent to equity managers, 24 percent to bond managers, four percent to private equity managers and the remainder in money market instruments. We regularly

[Table of Contents](#)

review our actual asset allocation and periodically rebalance our investments to our targeted allocation when considered appropriate. Our pension plan's historical 10-year and 25-year compounded annualized returns are 10.3 percent and 12.4 percent, respectively. We believe that with our target and actual allocation and the historical long-term returns of equity and bond indices as well as our actual historical returns, our 8.75 percent expected return on assets for 2006 is reasonable.

The discount rate assumptions used to determine future pension obligations at December 31, 2005 were based on the Hewitt Yield Curve (HYC), which was designed by Hewitt Associates to provide a means for plan sponsors to value the liabilities of their postretirement benefit plans. The HYC is a hypothetical double A yield curve represented by a series of annualized individual discount rates. Each bond issue underlying the HYC is required to have a rating of Aa or better by Moody's Investor Service, Inc. or a rating AA or better by Standard & Poor's. Prior to using the HYC rates, the discount rate assumptions for pension expense in 2005, 2004 and 2003 and the future pension obligations at December 31, 2004 were based on investment yields available on AA rated long-term corporate bonds. The discount rates determined on the basis described above were 5.75 percent at December 31, 2005 and 6.00 percent at December 31, 2004. We will continue to evaluate our actuarial assumptions at least annually, and we will adjust the assumptions as necessary.

Lowering the expected long-term rate of return on assets by 25 basis points would increase our net pension expense for 2006 by approximately \$1.8 million. Lowering the discount rate by 25 basis points would increase our 2006 net pension expense by approximately \$1.5 million.

Recent Accounting Pronouncements

As described in Note 10 of this Form 10-Q, we adopted Statement of Financial Accounting Standards ("SFAS") 123 (R), "Share-Based Payment", effective January 1, 2006, using the modified-prospective transition method. Adoption of this statement had no impact on our financial position, statement of operations or cash flows at the date of adoption.

In July 2006, the FASB issued FASB Interpretation ("FIN") 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company will be required to adopt this interpretation in the first quarter of calendar year 2007. Management is evaluating the requirements of FIN 48 and has not yet determined the impact on the consolidated financial statements.

[Table of Contents](#)

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

As is more fully described in our annual report on Form 10-K for the year ended December 31, 2005, we are exposed to various types of market risks, primarily currency and certain commodities. We monitor our risks in these areas on a continuous basis and generally enter into forward and futures contracts to minimize these exposures for periods of less than one year. Our company does not engage in speculation in our derivative strategies. It is important to note that gains and losses from our forward and futures contract activities are offset by changes in the underlying costs of the transactions being hedged.

ITEM 4 – CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The management of A. O. Smith Corporation, under the direction, supervision, and involvement of our chief executive officer and chief financial officer have evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2006. Based on this evaluation, our chief executive officer and chief financial officer have concluded that these disclosure controls and procedures were adequate and effective to ensure that material information relating to the company and its consolidated subsidiaries would be made known to them by others within the organization.

Changes in internal controls

During the three month period ended June 30, 2006, the following changes in internal controls occurred at our company.

On April 1, 2006 our Electrical Products segment and our Water Systems segment both implemented new general ledger systems. Additionally, on April 3, 2006 we acquired GSW Inc. (“GSW”), a Canadian-based manufacturer of water heaters and building products. Our company’s management has not yet completed an evaluation of the effectiveness of internal controls over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission for the new general ledger systems described above or for the recently acquired GSW business.

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

Forward Looking Statements

This filing contains statements that the company believes are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements generally can be identified by the use of words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “continue,” or words of similar

[Table of Contents](#)

meaning and include earnings accretion and synergy forecasts. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this release. Factors that could cause such a variance include the following: significant volatility in raw material prices; competitive pressures on the company's businesses; instability in the company's electric motor and water products markets; difficulties associated with integrating acquired businesses and attaining projected synergies; adverse changes in general economic conditions; foreign currency fluctuations; and the potential that assumptions on which the company based its expectations, including those regarding the impact of purchase accounting, are inaccurate or will prove to be incorrect.

Forward-looking statements included in this filing are made only as of the date of this filing, and the company is under no obligation to update these statements to reflect subsequent events or circumstances. All subsequent written and oral forward-looking statements attributed to the company, or persons acting on its behalf, are qualified entirely by these cautionary statements.

[Table of Contents](#)

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

There have been no material changes in the legal and environmental matters discussed in Part 1, Item 3 and Note 13 of the Notes to Consolidated Financial Statements in the company's Form 10-K Report for the year ended December 31, 2005, which is incorporated herein by reference.

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

On March 6, 2006, the company mailed a proxy statement to its stockholders relating to the annual meeting of stockholders on April 10, 2006. The annual meeting included the election of directors and the ratification of Ernst & Young LLP as the independent registered public accounting firm of the company for 2006.

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

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

1. Election of Directors

<u>Class A Common Stock Directors</u>	<u>Votes For</u>	<u>Votes Withheld</u>
Ronald D. Brown	8,405,797	7,841
Paul W. Jones	8,411,947	1,691
Robert J. O'Toole	8,405,797	7,841
Bruce M. Smith	8,411,767	1,871
Mark D. Smith	8,411,767	1,871
Gene C. Wulf	8,405,797	7,841
<u>Common Stock Directors</u>	<u>Votes For</u>	<u>Votes Withheld</u>
William F. Buehler	18,499,608	2,001,890
Idelle K. Wolf	20,008,876	492,623

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

<u>Combined Class Vote</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Broker Abstentions</u>
Class A Common Stock and Common Stock (1/10 th vote)	10,442,155	19,748	1,885

[Table of Contents](#)

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS

Refer to the Exhibit Index on page 28 of this report.

[Table of Contents](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has authorized this report to be signed on its behalf by the undersigned.

A. O. SMITH CORPORATION

August 3, 2006

/s/ John J. Kita

John J. Kita
Senior Vice President
Corporate Finance & Controller

August 3, 2006

/s/ Terry M. Murphy

Terry M. Murphy
Executive Vice President
and Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number	Description
3(i)	Restated Certificate of Incorporation as amended on October 10, 2000.
3(ii)	By-laws as amended on April 11, 2006.
31.1	Certification of Periodic Report by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Periodic Report by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32	Written Statement of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

**RESTATED
CERTIFICATE OF INCORPORATION
OF
A. O. SMITH CORPORATION**

1. The name of the corporation is A. O. Smith Corporation (the "Corporation"). The date of filing of its original Certificate of Incorporation with the Secretary of State of the State of Delaware was July 9, 1986.

2. This Restated Certificate of Incorporation restates and integrates and further amends the Certificate of Incorporation of this corporation to read as herein set forth in full:

ARTICLE 1

The name of the corporation is "A. O. SMITH CORPORATION."

ARTICLE 2

The address of the corporation's Registered Office in the State of Delaware is The Prentice-Hall Corporation System, Inc., 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle. The name of its Registered Agent at such address is The Prentice-Hall Corporation System, Inc.

ARTICLE 3

The nature of the business or purposes to be conducted or promoted are:

(A) 1. To manufacture, buy, sell, export, import and generally deal in all kinds of manufactured products and materials therefor, and in particular, steel and iron products and materials therefor.

2. To carry on the business of mining, milling, concentrating, converting, smelting, treating, preparing for market, manufacturing, buying, selling, exchanging and otherwise producing and dealing in gold, silver, copper, lead, zinc, brass, iron, steel and all kinds of ores, metals and minerals and the products and by-products thereof. Without in any way limiting the foregoing to search for, prospect and explore for ores and minerals and to locate mining claims, grounds or lodes in the United States of America or the states or territories thereof or in other countries and record the same pursuant to the mining laws of the said United States or the states or territories thereof or other countries.

3. To manufacture, buy, sell, lease and deal in machinery for mining and other uses and to buy or otherwise acquire, apply for, sell, deal in, trade and let to lease upon rents or royalties and patents or patent rights on machinery, tools or equipment which may be used in mining and to conduct a general mining and manufacturing business.

4. In general, but in connection with the purposes set forth in this Article 3, to carry on any other business, whether manufacturing or otherwise, and to have and exercise all the powers conferred by the laws of Delaware upon secular corporations.

(B) To apply for, obtain, register, purchase, lease, or otherwise acquire, and to hold, own, use, operate and introduce, and to sell, assign or otherwise dispose of letters patent, licenses, trademarks, trade names, and any and all inventions, improvements and processes used in connection with, or secured under letters patent of the United States of America or of any other country or government and pending applications therefor, including any interest therein, and to grant licenses in respect thereto, or otherwise turn the same to the use and account of the corporation.

(C) To acquire by purchase, lease or otherwise, upon such terms and conditions and in such manner as the board of directors of the corporation shall determine or agree to, and to the extent which the same may be allowed by the Delaware General Corporation Law, all or any part of the property, real and personal, tangible or intangible, of any nature whatsoever, including the good will, business and rights of all kinds, or any other corporation or of any person, firm or association, which may be useful or convenient in the business of the corporation, and to pay for the same in cash, stocks, bonds or in other securities of this corporation, or partly in cash and partly in such stocks, bonds or in other securities, or in such other manner as may be agreed, and to hold, possess and improve such properties, and to conduct in any legal manner the whole or any part of the business so acquired, and to pledge, mortgage, sell or otherwise dispose of the same.

(D) To borrow money, and, from time to time, to make, accept, endorse, execute and issue bonds, debentures, promissory notes, bills of exchange and other obligations of the corporation for moneys borrowed or in payment for property acquired or for any of the other objects or purposes of the corporation or its business, and as permitted by law to secure the payment of any such obligations by mortgage, pledge, deed, indenture, agreement or other instrument of trust, or by other lien upon, assignment of or agreement in regard to, all or any part of the property, rights, privileges or franchises of the corporation wheresoever situated, whether now owned or hereafter to be acquired.

(E) To acquire by purchase, subscription or otherwise, and to hold and own and to sell, assign, transfer, pledge or otherwise dispose of the stock, or certificates of interest in shares of stocks, bonds, debentures, obligations and other evidences of indebtedness of any other corporation, domestic or foreign, and to issue in exchange therefor the stock, bonds, or other obligations of the corporation and while the owner of any such stock, certificates of interest in shares of stock, bonds, debentures, obligations and other evidences of indebtedness, to possess and exercise in respect thereof all of the rights, powers and privileges of ownership, including the right to vote thereon, and also in the manner, and to the extent, now or hereafter authorized or permitted by the laws of the State of Delaware, to purchase, acquire, own and hold and to dispose of (except as herein otherwise expressly provided) the stock, bonds or other evidences of indebtedness of the corporation; and to organize or cause to be organized under the laws of any state or other government, corporations,

companies, associations, trusts, partnerships and other organizations for any lawful purpose, and to dissolve, liquidate, wind up, reorganize, merge or consolidate the same or cause the same to be dissolved, liquidated, wound up, reorganized, merged or consolidated.

(F) To the extent permitted by law, guarantee the payment of dividends on, or the payment or principal of or interest on, any stocks, bonds, notes, debentures, or other securities or obligations of any individual, corporation, company, association, trust, partnership or other organization in which the corporation has an interest or any of whose securities it owns; to the extent permitted by law, to become surety for and to guarantee the carrying out or performance of contracts of every kind and character of any individual, corporation, company, association, trust, partnership of other organization in which the corporation has an interest or any of whose securities it owns; and to aid in any lawful manner any individual, corporation, company, association, trust, partnership or other organization in which the corporation has an interest or any of whose securities it owns.

(G) To execute and deliver general or special powers of attorney to individuals, corporations, companies, associations, trusts, partnerships and other organizations, whether public or private, as the board of directors shall determine.

(H) In general to do any or all of the things hereinbefore set forth, and such other things as are incidental or conducive to the attainment of the objects and purposes of the corporation, as principal, factor, agent, contractor or otherwise, either alone or in conjunction with any person, firm, association or corporation, and in carrying on its business and for the purpose of attaining or furthering any of its objects to make and perform contracts, and to do such acts and things and to exercise any and all such powers to the same extent as a natural person might or could lawfully do to the extent allowed by law.

(I) To have one or more offices and to carry on its operations and transact its business within and without the State of Delaware, and, without restriction or limit as to amount, to purchase or otherwise acquire, hold, own, mortgage, sell, convey or otherwise dispose of real and personal property of every class and description in any of the states, districts, territories or dependencies of the United States, and in any and all foreign countries, subject always to the laws of such state, district, territory, dependency or foreign country.

The foregoing clauses shall each be construed as both purposes and powers, and the matters expressed in each clause shall, except as otherwise expressly provided, be in no wise limited by reference to or inference from the terms of any other clause, but shall be regarded as independent purposes and powers, and the enumeration of specific purposes and powers shall not be construed to limit or restrict in any manner the meaning of general terms or the general powers of the corporation; nor shall the expression of one thing be deemed to exclude another, although it be of like nature, not expressed.

ARTICLE 4

The aggregate number of shares which the corporation has the authority to issue shall be seventy-seven million (77,000,000) shares, consisting of:

- (a) fourteen million (14,000,000) shares designated as “Class A Common Stock,” with a par value of Five Dollars (\$5) per share;
- (b) sixty million (60,000,000) 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.

Any and all such shares of Class A Common Stock, Common Stock and Preferred Stock may be issued for such consideration, not less than the par value thereof, as shall be fixed from time to time by the board of directors. Upon any distribution of authorized but unissued shares to stockholders, the part of the surplus of the corporation (not less than the par value of such shares) which is concurrently transferred to stated capital shall be deemed the consideration for the issue of such shares. Any and all such shares so issued, the full consideration for which has been paid, delivered or so transferred, shall be deemed fully paid stock and shall not be liable to any further call or assessment thereon, and the holders of such shares shall not be liable for any further payments except as otherwise provided by applicable law of the State of Delaware or any other state in which the corporation holds a certificate of authority to do business. The relative rights, preferences and limitations of each class shall be as follows:

(A) Class A Common Stock and Common Stock

Except as provided in this Article 4, the Class A Common Stock and the Common stock shall have the same rights and privileges and shall rank equally, share ratably and be identical in all respects as to all matters.

(1) Dividends; Combinations; and Subdivisions.

- (a) The holders of the Class A Common Stock and Common Stock shall be entitled to receive, when and as declared by the board of directors, such dividends including share distributions (as defined in paragraph (A)(1)(b)) as may be declared from time to time by the board of directors subject to any limitations applicable by law of the State of Delaware, to the rights of the holders of the Preferred Stock, and to the following limitation. Whenever a dividend which is not a share distribution is paid to the holders of Class A Common Stock, the corporation shall also pay to the holders of Common Stock a dividend per share at least equal to the dividend per share paid to the holders of the Class A Common Stock. The corporation may pay dividends which are not share distributions to holders of Common Stock in excess of dividends paid, or without paying dividends, to holders of Class A Common Stock.

- (b) If at any time a distribution is to be paid in Class A Common Stock or Common Stock (a “share distribution”), such share distribution may be declared and distributed only as follows:
 - (i) Shares of one class of either the Class A Common Stock or the Common Stock (the “first class”) may be distributed on shares of that class, provided that there is declared and paid a simultaneous distribution of shares of the other class of stock (the “second class”) to the holders of the second class which simultaneous distribution shall consist of a number of shares of the second class equal on a per share basis to the number of shares of the first class which are distributed to holders of the first class.
 - (ii) Subject to any limitations of the laws of the State of Delaware, shares of the first class may be distributed on shares of the second class, provided that there is declared and paid a simultaneous distribution of shares of the first class to holders of shares of the first class which simultaneous distribution shall consist of a number of shares of the first class equal on a per share basis to the number of shares of the first class which are distributed to holders of the second class.
- (c) The corporation shall not combine or subdivide shares of the first class without making a simultaneous combination or subdivision of shares of the second class which is equal on a per share basis to the combination or subdivision of the shares of the first class.

(2) Voting.

Voting power shall be divided between the Class A Common Stock and the Common Stock as follows:

- (a) With respect to the election of directors, holders of the Common Stock, voting as a separate class, shall be entitled to elect that number of directors which constitutes 25% of the authorized number of members of the board of directors and, if such 25% is not a whole number, then the holders of the Common Stock shall be entitled to elect to the nearest higher whole number of directors that is at least 25% of such membership. Holders of Class A Common Stock, voting as a separate class but subject to any voting rights which may be granted to holders of Preferred Stock, shall be entitled to elect the remaining directors.
- (b) The holders of Class A Common Stock shall be entitled to vote as a separate class but subject to any voting rights which may be granted to holders of Preferred Stock, on the removal with or without cause, of any director elected by the holders of Class

A Common Stock, and the holders of Common Stock shall be entitled to vote as a separate class on the removal, with or without cause, of any director elected by the holders of Common Stock.

- (c) In the discretion of the board of directors, (i) any vacancy in the office of a director elected by the holders of the Class A Common Stock may be filled by a vote of such holders, voting as a separate class but subject to any voting rights which may be granted to holders of Preferred Stock, and any vacancy in the office of a director elected by the holders of the Common Stock may be filled by a vote of such holders, voting as a separate class, or (ii) in the case of a vacancy in the office of a director elected by either class, such vacancy may be filled by the remaining directors. Any director elected by the board of directors to fill a vacancy shall serve until the next Annual Meeting of Stockholders and until his successor has been elected and has qualified. If permitted by the By-Laws, the board of directors may (i) increase the number of directors and any vacancy so created may be filled by the board of directors, or (ii) decrease the number of directors; provided that, so long as the holders of Common Stock had the rights provided in paragraph (A)(2)(a) of this Article 4 in respect of the last Annual Meeting of Stockholders, the board of directors may be so enlarged (or so decreased) only to the extent that at least 25% of the enlarged (or decreased) board consists of directors elected by the holders of the Common Stock or by directors appointed to fill vacancies created by the death, resignation or removal of directors elected by the holders of the Common Stock.
- (d) The Common Stock will not have the right to elect directors set forth in paragraphs (A)(2)(a) and (A)(2)(c) of this Article 4, if, on the record date of any stockholder meeting at which directors are to be elected, the number of issued and outstanding shares of Common Stock is less than 10% of the aggregate number of issued and outstanding shares of Class A Common Stock and Common Stock. In such case, all directors to be elected at such meeting shall be elected by holders of Class A Common Stock and Common Stock, voting together as a single class but subject to any voting rights which may be granted to holders of Preferred Stock, provided that with respect to said election, the holders of Class A Common Stock shall have one vote per share and holders of Common Stock shall have one-tenth vote per share. The Class A Common Stock will not have the right to elect directors set forth in paragraphs (A)(2)(a) and (A)(2)(c) of this Article 4, if, on the record date for any stockholder meeting at which directors are to be elected, the number of issued and outstanding shares of Class A Common Stock is less than 12.5% of the aggregate number of issued and outstanding shares of Class A Common Stock and Common Stock. In such case, holders of Common Stock, voting as a separate class, shall have the right to elect 25% of the members of the board of directors as provided in paragraph (A)(2)(a) of this Article 4, and holders of Class A Common Stock and Common Stock voting together as a separate class but subject to any voting rights which may be granted to holders of Preferred Stock, shall be entitled to elect the remaining directors, provided that with respect to said election, the holders of Class A Common Stock shall have one vote per share and the holders of Common Stock shall have one-tenth vote per share.

- (e) Subject to the provisions of section (D) of this Article 4, the holders of Class A Common Stock and Common Stock shall in all matters not specified in paragraphs (A)(2)(a), (b), (c) and (d) of this Article 4 vote together as a single class but subject to any voting rights which may be granted to holders of Preferred Stock, provided that the holders of Class A Common Stock shall have one vote per share and the holders of Common Stock shall have one-tenth vote per share.
 - (f) Notwithstanding anything in this subsection (A)(2) or in section (D) of this Article 4 to the contrary but subject to any voting rights which may be granted to holders of Preferred Stock, the holders of Class A Common Stock shall have exclusive voting power on all matters, at any time when no Common Stock is issued and outstanding, and the holders of Common Stock shall have exclusive voting power on all matters at any time when no Class A Common Stock is issued and outstanding.
- (3) Conversion.
- (a) The holder of any shares of Class A Common Stock at his option will be entitled at any time to convert each share of Class A Common Stock into one share of Common Stock. Such right shall be exercised by the surrender of the shares of Class A Common Stock so to be converted to the corporation at any time during normal business hours at the office or agency then maintained by it for payment of dividends on the shares of the Class A Common Stock and the Common Stock (the "Payment Office"), accompanied by written notice of such holder's election to convert and (if so required by the corporation or any conversion agent) by instruments of transfer, in form satisfactory to the corporation and to any conversion agent, duly executed by the registered holder or by his duly authorized attorney.
 - (b) As promptly as practicable after the surrender for conversion of any shares of Class A Common Stock in the manner provided in paragraph A(3)(a) of this Article 4, the corporation will deliver or cause to be delivered at the Payment Office to or upon the written order of the holder of such shares, certificates representing the number of full shares of Common Stock issuable upon such conversion, issued in such name or names as such holder may direct. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Class A Common Stock, and all rights of the holder of such shares as a holder of such shares shall cease at such time and the person or persons in whose name or names the certificates for shares of Common Stock are to be issued shall be treated for all purposes as having become the record holder or holders thereof at such time; provided, however, that any such surrender on any date when the stock transfer books of the corporation shall be closed shall constitute the person or persons in whose name or names the certificates for such shares of Common Stock are to be issued as the record holder or holders thereof for all purposes immediately prior to the close of business on the next succeeding day on which such stock transfer books are opened.

- (c) No adjustments in respect of dividends shall be made upon the conversion of any shares of the Class A Common Stock; provided, however, that if shares of Class A Common Stock shall be converted subsequent to the record date preceding a dividend payment on the Class A Common Stock but prior to the payment date for such dividend, the registered holder of such shares of Class A Common Stock at the close of business on such record date nonetheless shall be entitled to receive the dividend paid on such shares, if any, on such payment date notwithstanding the conversion thereof.
- (d) The corporation covenants that it will at all times reserve and keep available, solely for the purpose of issue upon conversion of the shares of Class A Common Stock, such number of shares of Common Stock as shall be issuable upon the conversion of all such outstanding shares of Class A Common Stock, provided, that nothing contained herein shall be construed to preclude the corporation from satisfying its obligations in respect of the conversion of the shares of Class A Common Stock by delivery of shares of Common Stock which are held in the treasury of the corporation.

The corporation covenants that all shares of Common Stock which shall be issued upon conversion of the shares of the Class A Common Stock will upon issue be fully paid and non-assessable and not subject to any preemptive rights, except as otherwise required by applicable law.

(B) Preferred Stock

(1) Series of Preferred Stock

The board of directors shall have authority, by resolution or resolutions, to divide the Preferred Stock into series, to establish and designate each such series and the number of shares thereof (which number, by like action of the board of directors from time to time thereafter, may be increased except when otherwise provided by the board of directors in creating such series, or may be decreased but not below the number of shares thereof then outstanding), and to determine and fix the rights, preferences and limitations in respect of the shares of each series established prior to the issuance thereof, and the relative variations therein as between series, to the fullest extent now or hereafter permitted by applicable law of the State of Delaware, and (without limiting the generality of the foregoing) particularly with respect to:

- (a) The rate of dividend and the initial original issue date or other date from which such dividends shall be cumulative;
- (b) The price or prices, at the period or periods within, and the terms and conditions on which shares may or shall be redeemed;
- (c) The amounts payable upon shares in the event of voluntary liquidation or involuntary liquidation;

- (d) The terms of the sinking fund provisions or redemption or purchase account, if any, for the redemption or purchase of shares;
- (e) The terms and conditions on which shares may be converted into shares of Class A Common Stock or Common Stock, if the shares of any series are issued with the privilege of conversion; and
- (f) Whether or not shares shall have voting powers, and the terms and conditions upon which any voting powers may be exercised; provided that, so long as any Common Stock is outstanding, no Preferred Stock with voting powers shall have more than one vote per share nor shall any such Preferred Stock be entitled to vote with the Common Stock in the election of 25% of the members of the board of directors pursuant to paragraph (A)(2)(a) of this Article 4, on the removal of directors elected by holders of Common Stock pursuant to paragraph (A)(2)(b) of this Article 4, or in the filling of vacancies in the office of a director elected by holders of Common Stock pursuant to paragraph (A)(2)(d) of this Article 4.

Except as to the matters in respect to which variations are permitted under this subsection (B)(1), all series of the Preferred Stock of the corporation, whenever designated and issued, shall have the same rights, preferences and limitations and shall rank equally, share ratably and be identical in all respects as to all matters.

All shares of any one series of Preferred Stock established as hereinabove authorized shall be alike in every particular, and each series thereof shall be distinctively designated by letter or descriptive words or figures.

Any shares of Preferred Stock reacquired by the corporation by purchase or redemption, through conversion, or through the operation of any sinking fund or redemption or purchase account and which are thereafter cancelled shall have the status of authorized but unissued shares of Preferred Stock of the corporation, and, subject to the provisions of any series of the Preferred Stock, may thereafter be reissued as part of the same series or may be reclassified and reissued by the board of directors in the same manner as any other authorized but unissued shares of Preferred Stock

(2) Dividends.

Before any dividends, other than stock dividends, shall be paid or set apart for payment upon either the Class A Common Stock or the Common Stock, the holders of Preferred Stock shall be entitled to receive dividends at the rate per annum specified as to each series pursuant to paragraph (B)(1)(a), payable quarter-annually when and as declared by the board of directors.

Except as otherwise provided with respect to a particular series pursuant to paragraph (B)(1)(a), dividends shall accrue, in the case of shares of each particular series:

- (i) if issued prior to the record date for the first dividend on shares of such series, then from the date of initial original issue of shares of such series;
- (ii) if issued during the period commencing immediately after the record date for a dividend on shares of such series and terminating at the close of the payment date for such dividend, then from such last mentioned dividend payment date; and
- (iii) otherwise from the quarterly dividend payment date next preceding the date of original issue of such shares;

provided, that if the date of initial original issue of shares of any series shall be within thirty (30) days prior to the date when the first quarter-annual dividend would otherwise be payable, the board of directors may provide that such first dividend shall be payable only at the time of payment of the dividend for the next quarter-annual period, in which case no deficiency in payment of such first dividend shall exist by reason of such deferral.

All dividends of Preferred Stock shall be cumulative so that if the corporation shall not pay the quarterly dividend, or any part thereof, on the Preferred Stock then issued and outstanding, such deficiency in the dividend on the Preferred Stock shall thereafter be fully paid, but without interest, before any cash dividend shall be paid or set apart for payment on either the Class A Common Stock or the Common Stock.

Any dividend paid upon the Preferred Stock at a time when any accrued dividends for any prior period are delinquent shall be expressly declared as a dividend in whole or partial payment of the accrued dividend for the earliest period for which dividends are then delinquent, and shall be so designated to each shareholder to whom payment is made.

All shares of Preferred Stock shall rank equally and shall share ratably, in proportion to the rate of dividend fixed pursuant to paragraph (B)(1)(a) in respect to each such share, in all dividends paid or set aside for payment for any dividend period or part thereof upon any such shares.

(3) Liquidation, Dissolution or Winding Up.

In case of voluntary or involuntary liquidation, dissolution or winding up of the corporation, the holders of shares of each series of Preferred Stock shall be entitled to receive out of the assets of the corporation in money or money's worth the applicable amount specified pursuant to paragraph (B)(1)(c) with respect to that series of Preferred Stock, together with all accrued but unpaid dividends thereon (whether or not earned or declared), before any of such assets shall be paid or distributed to holders of Class A Common Stock or Common Stock, and if the assets of the corporation shall be insufficient to pay the holders of all of the Preferred Stock

then outstanding the entire amounts to which they may be entitled, the holders of each outstanding series of the Preferred Stock shall share ratably in such assets in proportion to the amounts which would be payable with respect to such series if all amounts payable thereon were paid in full. The consolidating or merger of the corporation with or into any other corporation or corporations, or the merger of any other corporation or corporations into the corporation, in pursuance of the laws of the State of Delaware and of any other applicable state providing for consolidation or merger, shall not be deemed a liquidation, dissolution or winding up of the affairs of the corporation within the meaning of the foregoing provisions of this subsection (B)(3), unless otherwise provided pursuant to paragraph (B)(1)(c).

(C) Preemptive Rights.

No holder of Preferred, Class A Common Stock or Common Stock shall be entitled, as of right because of his ownership of such stock, to subscribe for, purchase or receive any part of any new or additional issue of stock, whether Preferred Stock, Class A Common Stock or Common Stock, or of bonds, debentures or other securities convertible into stock, or any part of any reacquired shares or convertible securities held in treasury, but all such shares of stock or bonds, debentures or other securities convertible into stock may be issued and disposed of by the board of directors to such person or persons and on such terms and for such consideration (so far as may be permitted by law) as the board of directors in its absolute discretion may deem advisable. The provisions of this section (C) shall not impair any conversion right of any such convertible securities or any other right authorized by the board of directors to purchase or exchange, or to receive any distribution of, any securities of the corporation.

(D) Special Voting Rights of Stockholders

- (1) Subject to the voting rights of holders of Preferred Stock as may be established pursuant to subsection (B)(1) of this Article 4, the holders of Class A Common Stock and the holders of Common Stock shall be entitled to vote, and to vote as separate classes, upon the authorization of any amendment to this Certificate of Incorporation, and, in addition to the authorization of any such amendment by vote of a majority of the total number of votes represented by all outstanding shares entitled to vote thereon, the amendment shall be authorized by vote of a majority of the total number of votes represented by all outstanding shares of the Class A Common Stock and/or the Common Stock if such amendment contains any provision which would:
 - (a) exclude or limit their right to vote on any matter, except as such right may be limited by voting rights given to new shares then being authorized of any existing or new class or series,
 - (b) reduce the par value of their shares; or change their shares into a different number of shares of the same class or into the same or a different number of shares of any one or more classes or any series thereof, either with or without par value; or fix, change or abolish the designation or any of the relative rights, preferences and limitations of their shares, including any provision in respect to any undeclared dividends, whether or not cumulative or accrued, or the redemption of any shares, or any sinking fund for the redemption or purchase of their shares, or any preemptive right to acquire shares or other securities; or alter the terms or conditions upon which their shares are convertible or change the shares issuable upon conversion of their shares; if any such action would adversely affect such holders, or
 - (c) subordinate their rights, by authorizing shares having preferences which would be in any respect superior to those rights.
- (2) Any plan of merger or consolidation shall be adopted at a meeting of stockholders by a vote of two-thirds of the total number of votes represented by the outstanding shares entitled to vote thereon. The holders of shares of a class or series shall be entitled to vote and to vote as a class if the plan of merger or consolidation contains any provision which, if contained in an amendment to the Certificate of Incorporation, would entitle the holders of shares of such class or series to vote and vote as a class thereon pursuant to subsection (D)(1) of this Article 4. In such case, in addition to the authorization of the plan of merger or consolidation by vote of two-thirds of the total number of votes represented by all outstanding shares entitled to vote thereon, the plan of merger or consolidation shall be authorized by vote of the majority of the total number of votes represented by all outstanding shares entitled to vote thereon. Any plan of merger or consolidation of any subsidiary corporation or corporations, whether domestic or foreign, with and into the corporation shall not be subject to the provisions of this subsection (D)(2) if the corporation owns at least ninety percent of the outstanding shares of each class of capital stock of such subsidiary corporation or corporations.

For the purposes of this subsection (D)(2), the financial or other effect of any merger or consolidation on the corporation shall not be deemed to affect adversely the powers, preferences or rights of any class or series of stock.

- (3) Any sale, lease, exchange or other disposition of all or substantially all the assets of the corporation, if not made in the usual or regular course of the business actually conducted by the corporation shall be authorized by vote at a meeting of stockholders of two-thirds of the total number of votes represented by all outstanding shares entitled to vote thereon.
- (4) Any amendment to the Certificate of Incorporation of the corporation which adds a provision specifying that any stockholders, or the holders of any specified number or proportion of shares, or of any specified number or proportion of shares of any class or series thereof, may require the dissolution of the corporation at will or upon the occurrence of a specified event, or which changes or strikes out such a provision, shall be authorized at a meeting of stockholders by a vote of a majority of the total votes represented by all outstanding shares, whether or not otherwise entitled to vote on any such amendment.
- (5) Any amendment to the Certificate of Incorporation of the corporation which changes or strikes out any provision specifying that the proportion of shares, or the proportion of shares of any class or series thereof, the holders of which shall be present in person or by proxy at any meeting of stockholders in order to constitute a quorum for transaction of any business or of any specified item of business, including amendments to this Certificate of Incorporation shall be greater than the proportion prescribed by law in the absence of such provision, or any provision specifying that the proportion of votes of the holders of shares, or of the holders of shares of any class or series thereof, that shall be necessary at any meeting of stockholders for the transaction of any business or of any specified item of business, including amendments to this Restated Certificate of Incorporation, shall be greater than such proportion prescribed by law in the absence of such provision, shall be authorized at a meeting of stockholders by vote of two-thirds of the total number of votes represented by all outstanding shares entitled to vote thereon.

ARTICLE 5

The duration of the corporation is to be perpetual.

ARTICLE 6

The number of directors of the corporation shall be not less than five nor more than such number as shall be fixed by resolution of the board of directors from time to time.

ARTICLE 7

The board of directors shall have the following powers, in addition to those prescribed by law or by the By-Laws of the corporation;

(A) To make, alter, amend and repeal the By-Laws of the corporation, to the extent permitted by the law of Delaware.

(B) To elect or appoint from among their number an Executive Committee, which committee, to the extent and in the manner provided in the By-Laws of the corporation, shall have and may exercise all the powers of the board of directors, in the management of the business and affairs of the corporation, during the intervals between the meetings of the board of directors, so far as may be permitted by law, and such other standing committees as the board from time to time may determine to elect to appoint, which committees shall have and may exercise such powers as may be prescribed in the By-Laws or delegated to them by the board.

(C) From time to time to determine, so far as permitted by law, whether and to what extent, and at what time and places and under what conditions and regulations the accounts and books of the corporation, or any of them, shall be open to the inspection of stockholders, and no stockholder shall have any right to inspect any book or account or document of the corporation except as conferred by the laws of the State of Delaware or authorized by the board of directors.

(D) Subject to the provisions of the laws of the State of Delaware to hold their meetings either within or without the State of Delaware, to have one or more offices, and to keep the books of the corporation (except such books as are required by law to be kept at the office of the corporation in the State of Delaware) outside of the State of Delaware, and at such place or places as may from time to time be designated by them.

(E) To elect or appoint such officers, and to provide that the persons so elected or appointed shall have and may exercise such powers as may be prescribed from time to time by the By-Laws of the corporation.

ARTICLE 8

The corporation reserves the right to amend, alter, change or repeal any provision herein contained, in the manner now or hereafter prescribed by law, and all rights conferred on stockholders hereunder are granted subject to this provision.

ARTICLE 9

No director of the corporation shall be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

3. The amendment and restatement of the Certificate of Incorporation herein certified have been duly adopted by the stockholders as of February 5, 1996 in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, A. O. Smith Corporation has caused this Restated Certificate to be signed by Robert J. O'Toole, its President and attested by W. David Romoser, its Secretary, this 10th day of October, 2000.

A. O. SMITH CORPORATION

By: /s/ Robert J. O'Toole
Robert J. O'Toole

ATTEST:

By: /s/ W. David Romoser
W. David Romoser, Secretary

BY-LAWS
of
A. O. SMITH CORPORATION

ARTICLE I

SEAL

The Board of Directors shall provide a suitable seal for the corporation which shall remain in the custody of the secretary. The Board may authorize any other officer of the corporation to keep and use a duplicate seal.

ARTICLE II

STOCK

SECTION 1. *Certificates For Shares.* Certificates representing shares of the corporation shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the chairman, the president or a vice president and by the secretary or an assistant secretary or by the treasurer or an assistant treasurer and shall be sealed with the seal of the corporation or a facsimile thereof. Such signatures upon a certificate may be facsimiles if the certificate is countersigned by the transfer agent, or registered by a registrar, other than the corporation itself or an employee of the corporation. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer at the date of its issue. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the corporation. All certificates surrendered to the corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed, or mutilated certificate a new one may be issued therefore upon such terms and indemnity to the corporation as the Board of Directors may prescribe.

SECTION 2. *Uncertified Shares.* The Board of Directors hereby authorizes the issuance of any shares of its classes or series without certificates to the full extent that the secretary of the corporation determines that such issuance is allowed by applicable law and rules of the New York Stock Exchange, any such determination to be conclusively evidenced by the delivery to the corporation's transfer agent and registrar by the secretary of a certificate referring to this by-law and providing instructions of the secretary to the transfer agent and registrar to issue any such shares without certificates in accordance with applicable law. In any event, the foregoing authorization does not affect shares already represented by certificates until the certificates are surrendered to the corporation.

SECTION 3. Fixing Record Date. For the purpose of determining the stockholders entitled to (a) notice of or to vote at any meeting of stockholders or any adjournment thereof; or (b) receive payment of any dividend or allotment of any rights; or (c) take any other action, the Board of Directors may fix a date not more than sixty nor less than ten days prior to the date of such meeting, nor more than sixty days prior to the payment of such dividend or the proposed taking of such other action, as the record date as of which the stockholders entitled to notice of and to vote at such meeting or to receive such dividend or take any such other action shall be determined.

SECTION 4. Dividends. The Board of Directors may declare dividends at any time from the corporation's surplus or net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

ARTICLE III

STOCKHOLDERS' MEETINGS

SECTION 1. Annual Meeting. The annual meeting of the stockholders of the corporation shall be held each year at the location, date and time as the Board of Directors shall determine by resolution. The annual meeting shall be held for the purpose of electing directors and for the transaction of such other business as may be brought before the meeting.

SECTION 2. Special Meetings. Special meetings of the stockholders shall be called by the secretary upon written request of the chairman of the board, the chief executive officer, the president or of three directors; and shall be held at such site (as shall be fixed by the chairman of the board in writing to the secretary) and such place therein as shall be designated in the notice thereof. No business other than that specified in the call therefor shall be considered at any special meeting.

SECTION 3. Notice. Notice of the annual and each special meeting, stating the purpose thereof, shall be mailed to each stockholder entitled to vote at such meeting at his post office address as the same appears on the records of the corporation or of its transfer agent or agents, not less than ten nor more than sixty days before such meeting.

SECTION 4. Quorum. A majority of the outstanding stock of the corporation entitled to vote, represented by the holders of record thereof, in person or by proxy, shall constitute a quorum at any meeting of stockholders; but less than a quorum may adjourn the meeting from time to time, and at any such adjourned meeting any business may be transacted which might have been transacted if the meeting had been held as originally called.

SECTION 5. Proxies. Any stockholder entitled to a vote at a meeting of the stockholders may be represented and vote thereat by proxy, appointed by an instrument in writing subscribed by such stockholder or by his duly authorized attorney and submitted to the secretary at or before such meeting.

SECTION 6. Voting by Stockholders. The election of directors by stockholders shall be conducted by two inspectors of election appointed by the chairman of the board, the chief executive officer, the president or any vice president. The vote in elections of directors and, upon demand of a stockholder present in person or by proxy, the vote on any question at a meeting of stockholders shall be a stock vote and by ballot. Unless otherwise provided by the law of Delaware or the Certificate of Incorporation, all elections shall be decided by plurality of the votes cast and any other corporate action to be taken shall be decided by a majority of the votes cast.

SECTION 7. Order of Business. At all meetings of the stockholders, the order of business shall be as follows:

- (a) call to order;
- (b) election of a chairman and the appointment of a secretary, if necessary;
- (c) presentation of proofs of the due calling of the meeting, the certificate of the secretary or affidavit of other person who mailed the notice being conclusive of service in that mode;
- (d) presentation and examination of proxies;
- (e) reading and settlement of the minutes of the previous meeting;
- (f) reports of officers and committees;
- (g) if the annual meeting, the election of directors;
- (h) unfinished business;
- (i) new business; and
- (j) adjournment.

ARTICLE IV

DIRECTORS

SECTION 1. Number and Election. Except for the initial Board of Directors, the Board of Directors shall consist of a number which shall be not less than five nor more than that number as may be fixed from time to time by resolution of the Board. Except for the initial Board of Directors or pursuant to an appropriate plan of merger, directors shall be elected by the stockholders, voting as separate classes if required by the Certificate of Incorporation, at the annual meeting. If by resolution of the Board the number of directors shall be increased at a time between annual meetings, the additional directors may be elected by the vote of a majority of the directors in office at the time of such increase.

SECTION 2. Term of Office. Except for the initial Board of Directors, the directors of the corporation shall continue in their positions until the annual meeting of the stockholders succeeding their appointment or election, and thereafter until their respective successors shall have been duly elected and qualified. In the event of a decrease in the number of directors, the Board shall designate, subject to the provisions of Article 4, paragraph (A)(2)(d) of the Certificate of Incorporation, the position or positions thereby vacated and the holder of each such position shall cease to be a director on the effective date of such decrease. A director may be removed at any

time, with or without cause, upon the affirmative vote of a majority of the stock of the corporation entitled to vote upon such removal in accordance with Article 4, paragraph (A)(2)(b) of the Certificate of Incorporation.

SECTION 3. *Vacancies.* A resignation from the Board of Directors shall be deemed to take effect upon its receipt by the secretary unless some other time shall be specified therein. Any vacancy in the Board may be filled by the vote of a majority of the remaining directors although less than a quorum.

SECTION 4. *Election of Officers.* At its first meeting in each year after the annual meeting of the stockholders, the Board of Directors shall elect a chairman of the board, a chief executive officer, a president, a treasurer, a secretary, and a controller of the corporation.

SECTION 5. *Regular Meetings.* Regular meetings of the Board of Directors shall be held at least four times each year on such dates as the Board may designate from time to time.

SECTION 6. *Special Meetings.* Special meetings of the Board of Directors shall be called by the secretary and held at the request of the chairman of the board, the chief executive officer, the president or of any two of the directors.

- (a) *Action Without Meeting.* Any action required or permitted to be taken by the Board or any committee thereof may be taken without a meeting if all members of the Board or the committee consent in writing to the adoption of a resolution authorizing the action. The resolution and the written consents thereto by the members of the Board or committee shall be filed with the minutes of the proceedings.
- (b) *Meeting by Telephone.* Any one or more members of the Board or any committee thereof may participate in a meeting of such Board or committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

SECTION 7. *Notice of Meetings.* Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Notice of special meetings of the Board of Directors stating the place, date and hour of the meeting shall be given to each director either by mail not less than forty-eight hours before the date of the meeting; by telephone, telegram or electronic means on twenty-four hours' notice; or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances.

SECTION 8. *Quorum.* Four directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, regardless of the number of directors then in office. The act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board, except when otherwise expressly required by the law of Delaware, the Certificate of Incorporation or these By-Laws.

SECTION 9. *Place of Meeting.* The Board of Directors may hold its meetings at such place or places within or without the State of Delaware as the Board may from time to time determine.

SECTION 10. Compensation. By resolution or resolutions of the Board, any director may be allowed a fixed sum or sums for attendance at each regular or special meeting of either or both the Board and any standing or special committee of which such director may be a member, or a stated amount or amounts for his services as either or both a director and such committee member, and either his expenses of attending each such meeting or a fixed sum or sums to reimburse such director for his expenses of rendering such services, provided that nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation or commissions therefor.

SECTION 11. Inspection of Books. The Board of Directors shall, subject to the Certificate of Incorporation and to the law of Delaware, determine the conditions and regulations under which the books and accounts of the corporation or any of them shall be opened to the inspection of stockholders of the corporation.

ARTICLE V

BOARD COMMITTEES

SECTION 1. Executive Committee. The Board of Directors may, by a majority vote of the whole Board, designate three or more of their number to constitute an executive committee, one of whom shall be designated by the Board to be chairman of the executive committee and all of whom shall hold office for one year and until their respective successors shall be designated, which committee shall, between sessions of the Board and so far as may be permitted by law, have all the powers of the Board of Directors in the management of the business and affairs of the corporation, and shall have power to authorize the seal of the corporation to be affixed to all papers which may require it. The taking of any action by the executive committee shall be conclusive evidence that the Board of Directors was not at the time of such action in session. The secretary or a member of the executive committee shall keep minutes of its proceedings, and all such proceedings shall be from time to time reported to the Board of Directors, and shall be subject to revision or alteration by the Board provided that no rights of third persons shall be affected by such revision or alteration. A majority of the executive committee shall constitute a quorum at any meeting. The executive committee may take action without a meeting on the written approval of such action by a majority of the committee. A majority of the directors may fill vacancies in the executive committee.

SECTION 2. Finance Committee. The Board of Directors may, by a majority vote of the whole Board, designate three or more of their number to constitute a finance committee, one of whom shall be designated by the Board to be chairman of the finance committee and all of whom shall hold office for one year and until their respective successors shall be designated. The finance committee shall investigate, analyze and consider the current and future financial condition and financial results of the operations of the corporation and all general and particular financial policies and problems of the corporation, and from time to time upon the determination of such committee, or upon the request of the Board or the executive committee, shall make such recommendations to the Board and to the executive committee as the finance committee shall deem necessary or advisable with respect to the adoption, alteration or discontinuance of such policies and the solution of such problems. The finance committee also shall perform, so far as permitted by law, such other duties as may be assigned to the committee from time to time by the Board of Directors or the executive committee. The secretary or a member of the finance committee shall keep minutes of its proceedings, and all such proceedings shall be reported from time to time to the Board of Directors,

and shall be subject to revision or alteration by the Board provided that no rights of third persons shall be affected by such revision or alteration. A majority of the finance committee shall constitute a quorum at any meeting. The finance committee may take action without a meeting on the written approval of such action by the majority of such committee. A majority of the directors may fill vacancies in the finance committee.

SECTION 3. *Other Committees.* The Board of Directors may, by a majority vote of the whole Board, designate two or more of their members to constitute any other special committees. Such committees shall have such power which may include all the powers of the Board of Directors between sessions of the Board, as shall be provided by the Board of Directors' resolutions establishing the committee. The members of such committee shall hold office for one year and until their respective successors shall be designated or such other period as may be provided in the Board of Directors' resolutions establishing the committee. One half or more of the members of such committee shall constitute a quorum at any meeting. Such committee may take actions without a meeting on the written approval of such actions by the majority of such committee.

ARTICLE VI

OFFICERS

SECTION 1. *Officers.* The officers of the corporation shall be a chairman of the board, a chief executive officer, a president, a treasurer, a secretary and a controller, who shall be elected, as hereinabove provided in Section 4 of Article IV, to serve for one year unless removed by the Board of Directors as hereinafter provided and until their respective successors are elected and qualified; and such other officers as the Board from time to time may elect or appoint pursuant to this Article VI. Except for the initial Board of Directors, the chairman of the board, the chief executive officer, and the president shall always be members of the Board of Directors. One or more vice presidents may be elected from time to time as determined by the Board of Directors, which may also appoint one or more assistant secretaries and one or more assistant treasurers and such subordinate officers and agents of the corporation as the Board from time to time may determine. Any two or more of such offices may be held by the same person, except those of chairman of the board and vice president; chief executive officer and vice president; and chief executive officer or president and secretary.

SECTION 2. *Chairman of the Board.* The chairman of the board shall preside at all meetings of stockholders, unless the stockholders shall appoint a chairman (who may be chairman of the board), and the chairman of the board shall also preside at all meetings of the Board of Directors. During the absence or disability of the chief executive officer, the chairman of the board shall exercise all the powers and discharge all the duties of the chief executive officer.

SECTION 3. *Chief Executive Officer.* The chief executive officer shall be responsible, under the direction of the Board of Directors, for the supervision, control and conduct of all of the business and affairs of the corporation. During the absence or disability of the chairman of the board, he shall preside at all meetings of stockholders and at all meetings of the Board of Directors, unless the stockholders or the Board of Directors, respectively, shall appoint a chairman (who may be the chief executive officer). During the absence or disability of the president, the chief executive officer shall exercise all of the powers and perform all of the duties of the president.

SECTION 4. *President.* The president shall have immediate charge of and shall conduct the operations of the corporation, under the supervision of the chief executive officer; and shall perform such other duties as may be assigned to him from time to time by the Board of Directors or the chief executive officer. During the absence or disability of the chairman of the board and of the chief executive officer, the president shall exercise all of the powers and perform all of the duties of the chairman of the board and the chief executive officer, respectively, as hereinabove provided in Sections 2 and 3 of this Article VI.

SECTION 5. *Vice Presidents.* Any vice presidents elected by the Board of Directors shall have such titles and powers and perform such duties under the supervision of the chief executive officer or the president, or both, as may be assigned to such respective vice presidents by the Board of Directors pursuant to these By-Laws.

SECTION 6. *Treasurer.* The treasurer shall have the custody of the funds and securities of the corporation which may come into his hands. When necessary or proper, he may endorse, on behalf of the corporation, for collection, checks, notes and other obligations. He shall deposit the funds of the corporation to its credit in such banks and depositories as the Board of Directors may from time to time designate. He shall submit to the annual meeting of stockholders a statement of the financial condition of the corporation and, whenever thereunto required by the Board of Directors or the executive committee, shall make and render a statement of his accounts and such other statement as may be required. He shall keep in books of the corporation full and accurate account of all moneys received and paid by him for account of the corporation. He shall perform such other duties as may be from time to time assigned to him by the Board of Directors.

SECTION 7. *Secretary.* The secretary shall keep the minutes of all meetings of the Board of Directors, and of the stockholders, unless another person be appointed for those respective purposes by the directors or stockholders, and also, unless another person be appointed for that purpose by the executive committee, the minutes of the executive committee, in books provided for that purpose. He shall give or cause to be given all notices required by these By-Laws or by resolution of the Board of Directors. He shall have charge of the stock certificate book, stock transfer books and stock ledgers, all of which shall at all reasonable hours be open to the examination of any director; he shall have custody of the seal of the corporation; and he shall in general perform all the duties usually incident to the office of secretary, subject to the control of the Board of Directors.

SECTION 8. *Controller.* A controller elected by the Board of Directors shall be the chief accounting officer of the corporation. He shall be responsible to the Board of Directors for the maintenance of adequate accounting procedures and records of the corporation, for internal audit of all financial and business records and all receipts and disbursements of the corporation, and for the preparation of financial statements and reports on the operation of the business. He shall be responsible to the president with respect to the administration of his office and shall perform such other duties as may from time to time be assigned to him by the president or the Board of Directors. At the request of and subject to the direction of the treasurer, the controller shall prepare or have prepared any financial statement or statements which the treasurer may be required by law or these By-Laws to submit from time to time to the stockholders or to any stockholder.

SECTION 9. *Assistant Officers.* The assistant secretary or secretaries and the assistant treasurer or treasurers shall perform the duties of the secretary and of the treasurer, respectively, in the absence of those officers and shall have such further powers and perform such other duties as may be assigned to them respectively by the Board of Directors.

SECTION 10. Removal. Any person elected or appointed to office by the Board of Directors may be removed at any time by the Board of Directors, with or without cause.

ARTICLE VII

INDEMNIFICATION OF DIRECTORS AND OFFICERS

SECTION 1. *Mandatory Indemnification.*

(A) Subject to the conditions and limitations of this Article VII and the corporation's Certificate of Incorporation, the corporation shall, to the fullest extent permitted by the Delaware General Corporation Law as it may then be in effect, indemnify and hold harmless any person who is or was a party, or is threatened to be made a party, to any threatened, pending or completed action, claim, litigation, suit or proceeding, whether civil, criminal, administrative or investigative, whether predicated on foreign, federal, state or local law, and whether formal or informal (collectively, "action(s)") by reason of his status as, or the fact that he is or was or has agreed to become, a director or officer (collectively, "executive(s)") of the corporation or of an affiliate, and as to acts performed in the course of the executive's duty to the corporation or to an affiliate, against:

- (i) expenses, fees, costs and charges, including, without limitation, attorneys' fees and disbursements (collectively, "expenses") reasonably incurred by or on behalf of the executive in connection with any action (including, without limitation, in connection with the investigation, defense, settlement or appeal of such action), no matter by whom brought, including, without limitation, actions brought under and/or predicated upon the Securities Act of 1933, as amended, and/or the Securities Exchange Act of 1934, as amended, and/or their respective state counterparts and/or any rule or regulation promulgated thereunder (collectively, "securities law action(s)"); provided, that it is not determined pursuant to Section 2 of this Article VII, or by the court before which such action was brought, that:
 - (a) the executive engaged in criminal, fraudulent or intentional misconduct in the performance of his duty to the corporation,
 - (b) with respect to criminal actions, the executive had reasonable cause to believe his conduct was unlawful, and
 - (c) with respect to securities law actions, the executive did not act in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and its stockholders;
- (ii) subject to the restrictions of Section 1(C) of this Article VII, amounts incurred by the executive in settlement of any action, no matter by whom brought, including, without limitation, securities law actions; provided that it is not determined pursuant to Section 2 of this Article VII, or by the court before which such action was brought, that:
 - (a) such settlement was not in the best interests of the corporation and its stockholders,

- (b) the amount incurred by the executive in such settlement was unreasonable (to a material extent) in light of all of the circumstances of such action,
 - (c) the executive engaged in criminal, fraudulent or intentional misconduct in the performance of his duty to the corporation, and
 - (d) with respect to securities law actions, the executive did not act in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and its stockholders; and
- (iii) subject to the restrictions of Section 1(C) of this Article VII, judgments, fines, penalties or other amounts incurred by the executive pursuant to an adjudication of liability in connection with any action, including, without limitation, securities law actions; provided that it is not determined pursuant to Section 2 of this Article VII, or by the court before which such action was brought, that:
- (a) the executive engaged in criminal, fraudulent or intentional misconduct in the performance of his duty to the corporation,
 - (b) with respect to securities law actions, the executive did not act in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and its stockholders, and
 - (c) with respect to criminal actions, the executive had reasonable cause to believe his conduct was unlawful and that he otherwise did not act in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and its stockholders.

(B) To the extent the executive has been successful on the merits or otherwise in connection with any action referred to in Section 1(A) of this Article VII, no matter by whom brought (including, without limitation, the settlement, dismissal, abandonment or withdrawal of any such action where the executive does not pay, incur or assume any material liability), or in connection with any claim, issue or matter therein, he shall be indemnified by the corporation against expenses reasonably incurred by or on behalf of him in connection therewith. The corporation shall pay such amounts (net of all amounts, if any, previously advanced to the executive pursuant to Section 4 of this Article VII) to the executive (or to such other person or entity as the executive may designate in writing to the corporation) upon the executive's written request therefor without regard to the provisions of Section 2 of this Article VII.

(C) Notwithstanding the provisions of Sections 1(A)(ii) and 1(A)(iii), no indemnification shall be made to the executive by the corporation for monetary damages incurred by the executive pursuant to an action brought by or in the right of the corporation to procure a judgment in its favor (sometimes hereinafter referred to as “derivative action(s)”) or an action brought by a stockholder of the corporation if it is determined pursuant to Section 2 of this Article VII, or by the court before which such action was brought:

- (i) the executive breached his duty of loyalty to the corporation or its stockholders;
- (ii) the executive committed acts or omissions in bad faith or which involve intentional misconduct or a knowing violation of the law;
- (iii) the executive engaged in any willful or negligent conduct in paying dividends or repurchasing stock of the corporation out of other than lawfully available funds; or
- (iv) the executive derived an improper personal benefit from any transaction, unless such improper personal benefit is determined to be immaterial in light of all of the circumstances of such action.

(D) If the executive is or was serving as an executive, trustee, fiduciary, employee or agent of an employee benefit plan sponsored by or otherwise associated with the corporation and incurs expenses or amounts in settlement, judgments, fines, penalties or other amounts, including, without limitation, any excise tax or penalty assessed with respect to the employee benefit plan by reason of an action having been brought, or having been threatened, against such executive because of his status as such an executive, trustee, fiduciary, employee or agent of such plan, the corporation shall indemnify and hold harmless the executive against any and all of such reasonable amounts; provided it is not determined pursuant to Section 2 of this Article VII that the executive’s conduct with respect to such employee benefit plan was for a purpose he did not reasonably believe to be in the interests of the participants in and beneficiaries of such plan.

SECTION 2. *Right to Indemnification; How Determined.*

(A) Except as otherwise set forth in this Section 2, any indemnification to be provided to the executive by the corporation under Section 1 of this Article VII upon the final disposition or conclusion of an action (or a claim, issue or matter associated with such an action), unless otherwise ordered by the court before which such action was brought, shall be paid by the corporation (net of all amounts, if any, previously advanced to the executive pursuant to Section 4 of this Article VII) to the executive (or to such other person or entity as the executive may designate in writing to the corporation) within sixty days after the receipt of executive’s written request therefor, which request shall include a comprehensive accounting of amounts for which indemnification is being sought and shall reference the provision(s) of this Article VII pursuant to which such claim is being made.

Notwithstanding the foregoing, the payment of the requested amounts may be denied by the corporation if (i) the Board of Directors of the corporation by a majority vote thereof determines that such payment, in whole or in part, would not be in the best interests of the corporation and its stockholders and would contravene the terms and conditions of this Article VII; or (ii) a majority of the directors of the corporation are a party in interest to such action. In either of such events, the

Board shall immediately authorize and direct, by resolution, that an independent determination be made as to whether the executive has met the applicable standard(s) of conduct set forth in Section 1 of this Article VII and, therefore, whether indemnification is proper pursuant to this Article VII.

Such independent determination shall be made by a panel of three arbitrators in Milwaukee, Wisconsin, or, at the option of the executive, in Wilmington, Delaware, in accordance with the rules then prevailing of the American Arbitration Association, or, at the option of the executive, by an independent legal counsel mutually selected by the Board and the executive (such panel of arbitrators and/or independent legal counsel being hereinafter referred to as the "authority").

In any such determination there shall exist a rebuttable presumption that the executive has met such standard(s) of conduct and is therefore entitled to indemnification pursuant to this Article VII. The burden of rebutting such presumption by clear and convincing evidence shall be on the corporation.

If a panel of arbitrators is to be employed, one of such arbitrators shall be selected by the Board by a majority vote of a quorum thereof consisting of directors who were not parties in interest to such action (or, if such quorum is not obtainable, by an independent legal counsel chosen by the Board), the second by the executive and the third by the previous two arbitrators.

The authority shall make a determination within sixty days of being selected and shall simultaneously submit a written opinion of its conclusions to both the corporation and the executive and, if the authority determines that the executive is entitled to be indemnified for any amounts pursuant to this Article VII, the corporation shall pay such amounts (net of all amounts, if any, previously advanced to the executive pursuant to Section 4 of this Article VII), including interest thereon as provided in Section 5(C) of this Article VII, to the executive (or to such other person or entity as the executive may designate in writing to the corporation) within ten days of receipt of such opinion.

(B) The executive may, either before or within two years after a determination, if any, has been made by the authority, petition any court of competent jurisdiction to determine whether the executive is entitled to indemnification under this Article VII. Such court shall thereupon have the exclusive power to make such determination unless and until such court dismisses or otherwise terminates such proceeding without having made such determination.

The court shall make an independent determination of whether the executive is entitled to indemnification as provided under this Article VII, irrespective of any prior determination made by the authority; provided, however, that there shall exist a rebuttable presumption that the executive has met the applicable standard(s) of conduct and is therefore entitled to indemnification pursuant to this Article VII. The burden of rebutting such presumption by clear and convincing evidence shall be on the corporation.

If the court determines that the executive is entitled to be indemnified for any amounts pursuant to this Article VII, unless otherwise ordered by such court, the corporation shall pay such amounts (net of all amounts, if any, previously advanced to the executive pursuant to Section 4 of this Article VII), including interest thereon as provided in Section 5(C) of this Article VII, to the executive (or to such other person or entity as the executive may designate in writing to the corporation) within ten days of the rendering of such determination.

The executive shall pay all expenses incurred by the executive in connection with the judicial determination provided in this Section 2(B), unless it shall ultimately be determined by the court that he is entitled to be indemnified, in whole or in part, by the corporation as authorized in this agreement. All expenses incurred by the executive in connection with any subsequent appeal of the judicial determination provided for in this Section 2(B) shall be paid by the executive regardless of the disposition of such appeal.

(C) Except as otherwise set forth in this Section 2, the expenses associated with the indemnification process set forth in this Section 2, including, without limitation, the expenses of the authority selected hereunder, shall be paid by the corporation.

SECTION 3. *Termination of an Action is Nonconclusive.* The termination of any action, no matter by whom brought, including, without limitation, securities law actions, by judgment, order, settlement, conviction, or upon a plea of no contest or its equivalent, shall not, of itself, create a presumption that the executive has not met the applicable standard(s) of conduct set forth in Section 1 of this Article VII.

SECTION 4. *Advance Payment.*

(A) Expenses reasonably incurred by or on behalf of the executive in connection with any action (or claim, issue or matter associated with such action), no matter by whom brought, including, without limitation, securities law actions shall be paid by the corporation to the executive (or to such other person or entity as the executive may designate in writing to the corporation) in advance of the final disposition or conclusion of such action (or claim, issue or matter associated with such action) upon the receipt of executive's written request therefor; provided the following conditions are satisfied:

- (i) the executive has first requested an advance of such expenses in writing (and delivered a copy of such request to the corporation) from the insurance carrier(s), to whom a claim has been reported under an insurance policy purchased by the corporation, if any, as provided under Section 8 of this Article VII and each such insurance carrier has declined to make such an advance;
- (ii) the executive furnishes to the corporation an executed written certificate affirming his good faith belief that he has met the applicable standard(s) of conduct set forth in Section 1 of this Article VII; and
- (iii) the executive furnishes to the corporation an executed written agreement to repay any advances made under this Section 4 if it is ultimately determined that he is not entitled to be indemnified by the corporation for such amounts pursuant to this Article VII.

(B) If the corporation makes an advance of expenses to the executive pursuant to this Section 4, the corporation shall be subrogated to every right of recovery the executive may have against any insurance carrier from whom the corporation has purchased insurance for such purpose.

SECTION 5. *Partial Indemnification; Interest.*

(A) If it is determined by the authority pursuant to Section 2 of this Article VII, or by the court before which such action was brought, that the executive is entitled to indemnification as to some claims, issues or matters, but not as to other claims, issues or matters, involved in any action, no matter by whom brought, including, without limitation, securities law actions, the authority (or the court) shall authorize the reasonable proration of such expenses, judgments, penalties, fines and/or amounts incurred in settlement with respect to which indemnification is sought by the executive, among such claims, issues or matters as the authority (or the court) shall deem appropriate in light of all of the circumstances of such action.

(B) If it is determined by the authority pursuant to Section 2 of this Article VII, or by the court before which such action was brought, that certain amounts incurred by the executive, are for whatever reason unreasonable in amount, the authority (or the court) shall authorize indemnification to be paid by the corporation to the executive for only such amounts as the authority (or the court) shall deem reasonable in light of all of the circumstances of such action.

(C) To the extent deemed appropriate by the authority, or by the court before which such action was brought, interest shall be paid by the corporation to the executive, at a reasonable interest rate, for amounts for which the corporation indemnifies the executive.

SECTION 6. *Limitation of Derivative Actions and Release of Derivative Claims.* No derivative action shall be brought and no cause of derivative action shall be asserted against the executive, his spouse, heirs, executors or administrators after the expiration of two years from the date the executive ceases, for any reason whatsoever, to serve as an executive of the corporation and/or of an affiliate and any claim or cause of derivative action of the corporation shall be extinguished and deemed released unless asserted by the filing of an appropriate derivative action within such two-year period.

The provisions of any federal, state or local law or statute providing in substance that releases shall not extend to claims, demands, injuries or damages which are unknown or unsuspected to exist at the time to the person or entity executing such release are hereby expressly waived by the corporation and its stockholders.

SECTION 7. *Nonexclusivity of Agreement.* The right to indemnification and advancement of expenses provided to the executive by this Article VII shall not be deemed exclusive of any other rights to which the executive may be entitled under any charter provision, by-law, agreement, resolution, vote of stockholders or disinterested directors of the corporation or otherwise, including, without limitation, under Delaware General Corporation Law Section 145 as it may then be in effect, both as to acts in his official capacity as such executive or other employee or agent of the corporation or of an affiliate, or as to acts in any other capacity while holding such office or position, and the terms and provisions of this Article VII shall continue as to the executive if he ceases to be an executive or other employee or agent of the corporation or of an affiliate, and such terms and provisions shall inure to the benefit of the heirs, executors and administrators of the executive.

SECTION 8. Insurance.

(A) The corporation may purchase and maintain insurance on behalf of the executive against any liability asserted against him or incurred by or on behalf of him in such capacity as an executive or other employee or agent of the corporation or of an affiliate, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this Article VII or under Delaware General Corporation Law Section 145 as it may then be in effect.

The purchase and maintenance of such insurance shall not in any way limit or affect the rights and obligations of the corporation or the executive under this Article VII and the adoption of this Article VII by the corporation shall not in any way limit or affect the rights and obligations of the corporation or of the other party or parties thereto under any such policy or agreement of insurance.

(B) If the executive shall receive payment from any insurance carrier or from the plaintiff in any action against the executive in respect of indemnified amounts after payments on account of all or part of such indemnified amounts have been made by the corporation pursuant to this Article VII, the executive shall promptly reimburse the corporation for the amount, if any, by which the sum of such payment by such insurance carrier or such plaintiff and payments by the corporation to the executive exceeds such indemnified amounts; provided, however, that such portions, if any, of such insurance proceeds that are required to be reimbursed to the insurance carrier under the terms of its insurance policy, such as deductible or co-insurance payments, shall not be deemed to be payments to the executive hereunder.

In addition, upon payment of indemnified amounts under this Article VII, the corporation shall be subrogated to the executive's rights against any insurance carrier in respect of such indemnified amounts and the Executive shall execute and deliver any and all instruments and/or documents and perform any and all other acts or deeds which the corporation deems necessary or advisable to secure such rights. The executive shall do nothing to prejudice such rights of recovery or subrogation.

SECTION 9. Witness Expenses. Upon the executive's written request, the corporation shall pay (in advance or otherwise) or reimburse any and all expenses reasonably incurred by the executive in connection with his appearance as a witness in any action at a time when he has not been formally named a defendant or respondent to such an action.

SECTION 10. Contribution.

(A) If the indemnity provided for in Section 1 of this Article VII is unavailable to the executive for any reason whatsoever, the corporation, in lieu of indemnifying the executive, shall contribute to the amount reasonably incurred by or on behalf of the executive, whether for judgments, fines, penalties, amounts incurred in settlement and/or for expenses in connection with any action, no matter by whom brought, including, without limitation, securities law actions, in such proportion as deemed fair and reasonable by the authority pursuant to Section 2 of this Article VII, or by the court before which such action was brought, taking into account all of the circumstances of such action, in order to reflect (i) the relative benefits received by the corporation and the executive as a result of the event(s) and/or transaction(s) giving cause to such action; and/or (ii) the relative fault of the corporation (and its other executives, employees and/or agents) and the executive in connection with such event(s) and/or transaction(s).

(B) The executive shall not be entitled to contribution from the corporation under this Section 10 if it is determined pursuant to Section 2 of this Article VII, or by the court before which such action was brought, that the executive engaged in criminal, fraudulent or intentional misconduct in the performance of his duty to the corporation or otherwise violated the provisions of Section 1(C) of this Article VII.

(C) The corporation's payment of, and the executive's right to, contribution under this Section 10 shall be made and determined in accordance with Section 2 of this Article VII relating to the corporation's payment of, and the executive's right to, indemnification.

SECTION 11. Severability. If any provision of this Article VII shall be deemed invalid or inoperative, or if a court of competent jurisdiction determines that any of the provisions of this Article VII contravene public policy, this Article VII shall be construed so that the remaining provisions shall not be affected, but shall remain in full force and effect, and any such provisions which are invalid or inoperative or which contravene public policy shall be deemed, without further action or deed on the part of any person, to be modified, amended and/or limited, but only to the extent necessary to render the same valid and enforceable, and the corporation shall indemnify the executive as to expenses, judgments, fines and amounts incurred in settlement with respect to any action, no matter by whom brought, including securities law actions, to the full extent permitted by any applicable provision of this Article VII that shall not have been invalidated and to the full extent otherwise permitted by the Delaware General Corporation Law as it may then be in effect.

SECTION 12. Amendment and Modification. This Article VII has been adopted by the affirmative vote of not less than two thirds of the stockholders of the corporation entitled to vote therefor and may only be altered, amended or repealed by the affirmative vote of not less than two thirds of the stockholders of the corporation so entitled to vote; provided, however, that such stockholder authorization shall not be required in the event such alteration or amendment:

- (a) is made in order to conform to any amendment or revision of the Delaware General Corporation Law which expands an executive's rights to indemnification thereunder or is otherwise beneficial to the executive, or
- (b) in the sole judgment and discretion of the Board of Directors of the corporation, does not materially adversely affect the rights and protections of the stockholders of the corporation.

ARTICLE VIII

SIGNATURES

SECTION 1. Negotiable Instruments. All checks, drafts, notes and other obligations of the corporation shall be signed by an officer, or by any person or persons authorized by the Board of Directors. The signature of any officer and the corporate seal may be a facsimile, engraved or printed if authorized by the Board of Directors.

SECTION 2. *Stock Transfers.* All endorsements, assignments, transfers, stock powers or other instruments of transfer of securities standing in the name of the corporation shall be executed for and in the name of the corporation by any two of the following officers, to-wit: the chairman of the board, the chief executive officer, the president, a vice president, the treasurer, and the secretary; or by any one thereof and an assistant secretary or an assistant treasurer; or by any person or persons thereunto authorized by the Board of Directors.

SECTION 3. *Securities Owned by the Corporation.* Powers of attorney, proxies, waivers of notice of meetings and other instruments relating to securities owned by the corporation may be executed in the name and on behalf of the corporation by the chairman of the board, the chief executive officer, the president, a vice president or the secretary; and any such officer may, in the name and on behalf of the corporation, take all such action, as such officer may deem advisable, to vote in person or by proxy at any meeting of the security holders of any corporation in which this corporation may own securities, and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, this corporation might have exercised and possessed if present. The Board of Directors, by resolution, from time to time may confer like powers upon any other person or persons.

ARTICLE IX

WAIVER OF NOTICE

Whenever, under the provisions of these By-Laws or of any law of Delaware, the stockholders, directors or committees are authorized to hold any meeting after notice, or after lapse of any prescribed period of time, such meeting may be held without notice, or without such lapse of time, by the written waiver of such notice signed by every person entitled to notice.

ARTICLE X

AMENDMENTS

Subject to the law of Delaware, the certificate of incorporation and except as otherwise set forth in these By-Laws, the Board of Directors may amend these By-Laws or enact such other By-Laws as in their judgment may be advisable for the regulation of the conduct of the affairs of the corporation.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Paul W. Jones, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A. O. Smith Corporation (the “company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any changes in the company’s internal control over financial reporting that occurred during the company’s most recent fiscal quarter (the company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: August 3, 2006

/s/ Paul W. Jones

Paul W. Jones

Chairman and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Terry M. Murphy, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A. O. Smith Corporation (the “company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any changes in the company’s internal control over financial reporting that occurred during the company’s most recent fiscal quarter (the company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: August 3, 2006

/s/ Terry M. Murphy

Terry M. Murphy

Executive Vice President and Chief Financial Officer

Written Statement of the Chief Executive Officer and the
Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, each of the undersigned certifies that to the best of our knowledge:

- (1) the Quarterly Report on Form 10-Q of A. O. Smith Corporation for the quarter ended June 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of A. O. Smith Corporation.

Date: August 3, 2006

/s/ Paul W. Jones

Paul W. Jones
Chairman and Chief Executive Officer

/s/ Terry M. Murphy

Terry M. Murphy
Executive Vice President and Chief Financial Officer