

SMITH A O CORP  
Form DEF 14A  
February 28, 2019  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**  
**Proxy Statement Pursuant to Section 14(a) of The**  
**Securities Exchange Act of 1934**  
**(Amendment No. )**

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for the Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**A. O. Smith Corporation**

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

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

Payment of Filing Fee (Check the appropriate box):

No fee required

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

- 1) Title of each class of securities to which transaction applies:
  
- 2) Aggregate number of securities to which transaction applies:
  
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  
- 4) Proposed maximum aggregate value of transaction:
  
- 5) Total fee paid:

Fee paid previously with preliminary materials

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

- 1) Amount Previously Paid:
  
- 2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

**Table of Contents**

February 28, 2019

DEAR FELLOW A. O. SMITH STOCKHOLDER:

I am pleased to invite you to our Annual Meeting of Stockholders, to be held at the Lloyd R. Smith Corporate Technology Center, 11100 West Park Place, Milwaukee, Wisconsin, on Tuesday, April 9, 2019, at 8:00 a.m. Central Daylight Time. The attached Notice of our 2019 Annual Meeting of Stockholders and Proxy Statement will serve as your guide to the business we will address at the meeting. You can also review our 2018 Annual Report, which incorporates our Form 10-K, to learn more about our financial performance.

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

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

Sincerely,

Ajita G. Rajendra

Executive Chairman

**Table of Contents**

February 28, 2019

**NOTICE OF 2019 ANNUAL MEETING OF STOCKHOLDERS**

The 2019 Annual Meeting of Stockholders of A. O. Smith Corporation will be held at the Lloyd R. Smith Corporate Technology Center, 11100 West Park Place, Milwaukee, Wisconsin, on Tuesday, April 9, 2019, at 8:00 a.m. Central Daylight Time, for the following purposes:

- (1) To elect our Board of Directors;
- (2) To approve, by advisory vote, the compensation of our named executive officers;
- (3) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019; and
- (4) To consider and act upon such other business as may properly come before the Annual Meeting.

Stockholders of record as of February 19, 2019, are entitled to vote at the Annual Meeting. The list of stockholders entitled to vote at the meeting will be available at our offices at 11270 West Park Place, Milwaukee, Wisconsin, as of March 29, 2019, for examination by stockholders for purposes related to the meeting.

All stockholders must pre-register in order to attend the Annual Meeting of Stockholders of A. O. Smith Corporation. Please contact us by email at [2019stockholdersmeeting@aosmith.com](mailto:2019stockholdersmeeting@aosmith.com) or by telephone at 414-359-4000 and provide your name, address, telephone number and your request to attend. We will respond to all pre-registration requests and will maintain a list of verified stockholders at the admission desk for the meeting. In addition to ownership confirmation, you must also present government-issued photo identification showing your name, address and signature for admission. Annual meeting pre-registration requests must be received by the end of business on Friday, April 5, 2019. Seating and parking are limited and admission is on a first-come basis.

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

By Order of the Board of Directors,

James F. Stern

Executive Vice President,

General Counsel and Secretary

A. O. Smith Corporation

11270 West Park Place

Milwaukee, WI 53224

**Table of Contents**

**PROXY STATEMENT FOR 2019 ANNUAL MEETING**

**TABLE OF CONTENTS**

<u>GENERAL INFORMATION</u>	1
<u>PRINCIPAL STOCKHOLDERS</u>	4
<u>ELECTION OF DIRECTORS</u>	5
<u>GOVERNANCE OF OUR COMPANY</u>	9
<u>The Board of Directors</u>	9
<u>Director Independence and Financial Literacy</u>	9
<u>Board Composition</u>	10
<u>Board Information and Stockholder Communications</u>	11
<u>Compensation Committee Interlocks and Insider Participation</u>	11
<u>Procedure for Review of Related Party Transactions</u>	11
<u>Potential Director Candidates</u>	12
<u>Board Committees</u>	12
<u>Audit Committee</u>	13
<u>Personnel and Compensation Committee</u>	13
<u>Investment Policy Committee</u>	13
<u>Nominating and Governance Committee</u>	13
<u>Our Leadership Structure</u>	14
<u>Consideration of Risk</u>	15
<u>Corporate Responsibility and Sustainability</u>	16
<u>DIRECTOR COMPENSATION</u>	17
<u>STOCK OWNERSHIP</u>	19
<u>Security Ownership of Directors and Management</u>	19
<u>Compliance with Section 16(a) of the Securities Exchange Act</u>	19
<u>EXECUTIVE COMPENSATION</u>	20
<u>Compensation Discussion and Analysis</u>	20
<u>Summary Compensation Table</u>	33
<u>Components of 2018 All Other Compensation Table</u>	34
<u>Grants of Plan-Based Awards Table</u>	35
<u>Outstanding Equity Awards at December 31, 2018 Table</u>	37
<u>Option Exercises and Stock Vested Table</u>	39
<u>Pension Benefits Table</u>	39
<u>Non-qualified Deferred Compensation Table</u>	41
<u>Employment Contracts, Termination of Employment and Change in Control Arrangements</u>	42
<u>REPORT OF THE PERSONNEL AND COMPENSATION COMMITTEE</u>	46
<u>PAY RATIO DISCLOSURE</u>	46
<u>ADVISORY VOTE TO APPROVE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS</u>	47
<u>REPORT OF THE AUDIT COMMITTEE</u>	48
<u>RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	49
<u>REPORT OF THE NOMINATING AND GOVERNANCE COMMITTEE</u>	49

DATE FOR STOCKHOLDER PROPOSALS



**Table of Contents**

**PROXY STATEMENT**  
**2019 ANNUAL MEETING**

**GENERAL INFORMATION**

This Proxy Statement is furnished to stockholders of A. O. Smith Corporation in connection with the solicitation by its Board of Directors of proxies for use at the Annual Meeting of Stockholders of our company to be held on April 9, 2019, at 8:00 a.m. Central Daylight Time, at the Lloyd R. Smith Corporate Technology Center, 11100 West Park Place, Milwaukee, Wisconsin.

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

The company is mailing the Notice of Internet Availability of Proxy Materials on or about February 28, 2019, to each stockholder at the holder's address of record.

**Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to be held on April 9, 2019: The Notice of 2019 Annual Meeting of Stockholders, this Proxy Statement and our 2018 Annual Report are also available at [www.proxydocs.com/aos](http://www.proxydocs.com/aos).**

**Record Date**

The record date for stockholders entitled to notice of and to vote at the meeting is the close of business on February 19, 2019 (the Record Date). As of the Record Date, we had issued 26,190,283 shares of Class A Common Stock, par value \$5 per share, 26,059,903 shares of which were outstanding and entitled to one (1) vote each for Class A Common Stock directors and other matters. As of the Record Date, we had issued 164,517,311 shares of Common Stock, par value \$1 per share, 141,802,826 shares of which were outstanding and entitled to one (1) vote each for Common Stock directors and one-tenth (1/10<sup>th</sup>) vote each for other matters.

**Class Voting for Directors**

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

## **Table of Contents**

class of stock. As a result of these provisions and the shares of the two classes of our stock that are outstanding, holders of Common Stock will elect four directors at the Annual Meeting and holders of Class A Common Stock will elect six directors.

## **Quorum**

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

## **Required Vote**

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

For all other matters considered at the meeting, both classes of stock vote together as a single class, with the Class A Common Stock entitled to one (1) vote per share and the Common Stock entitled to one-tenth (1/10th) vote per share. The proposal to approve the compensation of our named executive officers by advisory vote and the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm will be approved if a majority of the votes present or represented at the meeting and entitled to vote on the matter are cast in favor of the matter. On all such other matters, an abstention will have the same effect as a vote against but, because shares held by brokers will not be considered entitled to vote on matters as to which the beneficial owners withhold authority, a broker non-vote will have no effect on the vote.

## **Cost of Soliciting Proxies**

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

## **How to Vote**

**Via the Internet** Stockholders of record can simplify their voting by voting their shares via the Internet as instructed in the Notice of Internet Availability of Proxy Materials. The Internet procedures are designed to authenticate a stockholder's identity to allow stockholders to vote their shares and confirm that their instructions have been properly recorded. Internet voting for stockholders of record is available 24 hours a day and will close at 11:59 p.m. (CDT) on April 7, 2019.

**By Telephone** Stockholders of record who received a paper Proxy Card can vote their shares by a toll-free number on the Proxy Card or in the voting instruction form sent by their broker, bank or other agent. Telephone voting for stockholders of record is available 24 hours a day and will close at 11:59 p.m. (CDT) on April 7, 2019.

**By Mail** Stockholders of record who have received a paper Proxy Card may vote by completing, signing and dating their Proxy Card and mailing it in the pre-addressed envelope. Proxy Cards submitted by mail must be received by April 8, 2019, for your shares to be voted. Stockholders who hold shares beneficially in street name and

## **Table of Contents**

received a voting instruction form from their broker, bank or other agent may vote by completing, signing and dating the instruction form provided by the broker, bank or other agent and mailing it in the pre-addressed envelope provided.

If you vote via the Internet, by telephone or by mailing a Proxy Card, we will vote your shares as you direct. For the election of directors, you can specify whether your shares should be voted for all or some of the nominees for director listed or you may withhold your vote from all or some of the nominees for director. With respect to the proposal to approve the compensation of our named executive officers by advisory vote and the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm, you may vote for or against any proposal or you may abstain from voting on any proposal.

If you submit a proxy via the Internet, by telephone or by mailing a Proxy Card without indicating your instructions, we will vote your shares consistent with the recommendations of our Board of Directors as stated in this Proxy Statement. Specifically, we will vote in favor of our nominees for directors, in favor of approving the compensation of our named executive officers and in favor of the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm. If any other matters are properly presented at the Annual Meeting for consideration, then our officers named on your proxy will have discretion to vote for you on those matters. As of the date of the Notice of 2019 Annual Meeting of Stockholders, we knew of no other matters to be presented at the Annual Meeting.

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

## **Revocation of Proxies**

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

## **Stockholders Sharing the Same Address**

SEC rules permit us to deliver only one copy of a single set of proxy materials to multiple stockholders sharing the same address. Upon written or oral request, we will promptly deliver a separate copy of our Annual Report and/or this Proxy Statement to any stockholder at a shared address to which a single copy of each document was delivered. Stockholders may notify our company of their requests by calling or writing Patricia K. Ackerman, Senior Vice President, Investor Relations, Treasurer, and Corporate Responsibility and Sustainability, A. O. Smith Corporation, P.O. Box 245008, Milwaukee, Wisconsin, 53224-9508; 414-359-4130.

## **Attendance at Annual Meeting**

All stockholders as of the Record Date, or their duly appointed proxies, may attend the Annual Meeting. **You must pre-register in order to attend.** Please contact us by email at 2019stockholdersmeeting@aosmith.com or by telephone at 414-359-4000 and provide your name, address, telephone number with area code, and note that you plan to attend the Annual Meeting.

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

We will respond to all pre-registration requests and will maintain a list of verified Stockholders at the Annual Meeting. To gain admission at the meeting, you must present government-issued photo identification that matches the name on the pre-registration list.

Annual meeting pre-registration requests must be received by the end of business on Friday, April 5, 2019.

Seating and parking is limited and admission is on a first-come basis.

Table of Contents**PRINCIPAL STOCKHOLDERS**

The following table shows persons who may be deemed to be beneficial owners (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of more than 5% of any class of our stock. Unless otherwise noted, the table reflects beneficial ownership as of December 31, 2018.

<b>Title of Class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
Class A Common Stock	Smith Family Voting Trust  11270 West Park Place  Milwaukee, WI 53224	25,141,200 <sup>1</sup>	96.47%
Common Stock	Vanguard Group, Inc.  100 Vanguard Blvd.  Malvern, PA 19355	16,094,942 <sup>2</sup>	11.18%
Common Stock	BlackRock Inc.  55 East 52 <sup>nd</sup> Street  New York, NY 10055	9,761,832 <sup>3</sup>	6.80%
Common Stock	State Street Corporation  State Street Financial Center  One Lincoln Street  Boston, MA 02111	8,952,850 <sup>4</sup>	6.20%

<sup>1</sup> The Smith Family Voting Trust (the "Voting Trust") owned 25,141,200 shares of Class A Common Stock and 1,785,647 shares of Common Stock as of December 31, 2018. Pursuant to our Amended and Restated Certificate of Incorporation, Class A Common Stock is convertible at any time at the option of the holder into Common Stock on a share-for-share basis. As a result, a holder of shares of Class A Common Stock is deemed to beneficially own an equal number of shares of Common Stock. However, to avoid overstatement of the aggregate beneficial ownership of both classes of our outstanding capital stock, the shares of Class A Common Stock listed in the table do not include shares of Common Stock that may be acquired upon the conversion of outstanding shares of Class A Common Stock. The trustees of the Voting Trust are Bruce M. Smith, Mark D. Smith and Robert L. Smith. Bruce M. Smith and Robert L. Smith are brothers, and Mark D. Smith is their cousin. The trustees do not have beneficial ownership of shares of Class A Common Stock or Common Stock owned by the Voting Trust. The Voting Trust has sole voting power, exercised by a majority of the three trustees, with respect to shares in the

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

- <sup>2</sup> Based on the Schedule 13G/A Vanguard Group, Inc. filed with the SEC on February 11, 2019. Vanguard Group, Inc. has sole voting power over 170,000 shares, shared voting power over 25,442 shares, sole dispositive power over 15,905,585 shares and shared dispositive power over 189,357 shares.
- <sup>3</sup> Based on the Schedule 13G/A BlackRock Inc. filed with the SEC on February 4, 2019. BlackRock Inc. has sole voting power over 8,498,543 and sole dispositive power over 9,761,832 shares.
- <sup>4</sup> Based on the Schedule 13G State Street Corporation filed with the SEC on February 13, 2019. State Street Corporation, together with its subsidiaries, has shared voting power over 8,300,805 and shared dispositive power over 8,950,627 shares.

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



**Table of Contents**

**ELECTION OF DIRECTORS**

At the 2019 Annual Meeting, ten directors are to be elected to serve until the next succeeding Annual Meeting of Stockholders and thereafter until their respective successors are duly elected and qualified. Owners of Common Stock are entitled to elect four directors, and owners of Class A Common Stock are entitled to elect the six remaining directors.

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

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

**NOMINEES CLASS A COMMON STOCK**

**RONALD D. BROWN** Former Vice Chairman, The Armor Group, Inc.

Mr. Brown, 65, has been a director of our company since 2001. He is the chairperson of the Personnel and Compensation Committee and a member of the Nominating and Governance Committee of the Board. Mr. Brown served as interim chief executive officer of LSI Industries Inc. from April 23, 2018 to October 31, 2018, and was elected to its board of directors on November 6, 2018. LSI Industries Inc. is a U.S.-based designer, manufacturer and marketer of lighting, graphics and technology solutions for indoor and outdoor applications. Previously, Mr. Brown served from March 2017 to April 2018 as vice chairman of the Armor Group, Inc. which he joined in 2013 as chief operating officer. The Armor Group, Inc. is a certified woman-owned corporation that manufactures equipment and products and provides related services to a variety of industrial markets, including beverage and food service, medical, power generation, automobile and military. From 2009 until 2014, Mr. Brown was managing director of Taft Business Consulting, LLC, a consulting group affiliated with the law firm of Taft Stettinius & Hollister LLP, which provides advisory services on a range of business issues. From 2010 to 2013, Mr. Brown served as chief financial officer of Makino, Inc., a privately held global metalworking technologies company. Prior to that, Mr. Brown was chairman and chief executive officer of Milacron Inc. from 2001 to 2008 and president and chief operating officer of Milacron Inc. from 1999 through 2001. He joined Milacron Inc. in 1980. Milacron is a supplier of plastic processing and metalworking fluid technologies. In addition to serving on the board of LSI Industries, Inc. where he is on the Executive and Compensation Committees, Mr. Brown joined the board of Master Chemical Corporation, d/b/a Master Fluid Solutions in May 2018, where he chairs the Compensation Committee. He is also an independent trustee of the James Advantage Funds where he serves on its Audit Committee, and a director of Clippard Instrument Laboratory, Inc. Mr. Brown also served on the board of Zep Inc., where he was chairman of the Compensation Committee and a member of the Nominating and Corporate Governance Committee, from 2010 until it was acquired by New Mountain Capital in 2015.

Mr. Brown's broad experience as an executive with several publicly traded companies provides valuable insight for us as to the issues and opportunities facing our company. Further, he has international and manufacturing experience with LSI, The Armor Group and Milacron. Like our company, The Armor Group has a manufacturing plant in Asia

and LSI and Milacron face the challenge of competing against foreign manufacturers and Milacron operated international manufacturing plants, particularly in Asia. In addition, his experience as a director of other publicly traded companies brings a different perspective to our Board. Mr. Brown also has experience as a chief financial officer and a corporate attorney. His legal background makes him well-suited to address legal and governance requirements of the SEC and New York Stock Exchange, both as chairperson of our Personnel and Compensation Committee and as a member of our Nominating and Governance Committee.

**Table of Contents**

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

Mr. Jones, 70, has been a director of our company since 2004. He is a member of the Nominating and Governance Committee and the Personnel and Compensation Committee of the Board. He was executive chairman of the board of our company from 2013 until his retirement in 2014. Mr. Jones served as chairman of the board and chief executive officer of our company from 2011 to 2012; chairman of the board, president and chief executive officer from 2006 to 2011; and president and chief operating officer from 2004 to 2005. Prior to joining A. O. Smith, he was chairman and chief executive officer of U.S. Can Company, Inc. from 1998 to 2002. He previously was president and chief executive officer of Greenfield Industries, Inc. from 1993 to 1998 and president from 1989 to 1992. Mr. Jones has served as a director of Rexnord Corporation since 2014, where he is a member of the Compensation Committee, chairs the Executive Committee and was elected nonexecutive chairman in 2015. Mr. Jones served as a director of Federal Signal Corporation from 1998 until his resignation in May 2018, where he chaired the Nominating and Governance Committee and was a member of the Compensation and Benefits Committee. He also served as a director of Integrys Energy Group, Inc., where he chaired the Financial Committee and was a member of the Audit Committee from 2011 until its merger into Wisconsin Energy Corporation in 2015 and continued as a director and Audit Committee member of the newly formed entity, WEC Energy Group, Inc. until his resignation in 2017. He also was a director of Bucyrus International, Inc. from 2006 until its acquisition by Caterpillar, Inc. in 2011 and chaired its Compensation Committee. In addition, he was the co-founder of The Water Council, a nonprofit organization headquartered in Milwaukee, Wisconsin that is dedicated to the development of the global water industry.

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

**AJITA G. RAJENDRA** Executive Chairman, A. O. Smith Corporation.

Mr. Rajendra, 67, has been a director of our company since 2011. He is a member of the Investment Policy Committee of the Board. Mr. Rajendra is executive chairman of our company. He previously served as chairman and chief executive officer from 2017 to August 2018, chairman, president and chief executive officer from 2014 to 2017, president and chief executive officer from 2013 to 2014, and president and chief operating officer from 2011 to 2012. Mr. Rajendra joined the company as president of A. O. Smith Water Products Company in 2005 and was named executive vice president of the company in 2006. Prior to joining the company, Mr. Rajendra was senior vice president at Kennametal, Inc., a manufacturer of cutting tools, from 1998 to 2004. Mr. Rajendra also serves on the board of Donaldson Company, Inc., where he is a member of the Audit Committee and Human Resources Committee, and on the board of The Timken Company, where he serves on the Audit and Compensation Committees. Further, Mr. Rajendra was a director of Industrial Distribution Group, Inc. from 2007 until its acquisition by Eiger Holdco, LLC in 2008.

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

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

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

Mr. Smith, 70, has been a director of our company since 1995. He is the chairperson of the Investment Policy Committee and a member of the Personnel and Compensation Committee and the Nominating and Governance Committee of the Board. He was elected president of Smith Investment Company Inc. ( SICO ) in 1993 and served

---

**Table of Contents**

as chairman and chief executive officer of SICO from 1999 until its merger with our company in 2009. Shares of our Class A Common Stock and Common Stock were SICO's principal asset and represented a controlling position in our company until the merger. Mr. Smith was a director of SICO from 1983 to 1988 and from 1991 to 2009. From 2009 until his retirement in 2012, Mr. Smith also was chief executive officer of Smith Investment Company LLC, an entity that held all of the assets and liabilities of SICO (other than our Class A Common Stock and Common Stock owned by SICO until the merger). From 2009 to 2016, Mr. Smith was chairman of the board of managers of Smith Investment Company LLC. He was also chief executive officer of Berlin Industries LLC, which was engaged in multicolor printing and related services, from 1996 until its sale in 2011. Further, Mr. Smith is one of three trustees of the Smith Family Voting Trust, which holds a controlling position in the stock of our company. Mr. Smith is a first cousin of Mark D. Smith, also a director of our company and also a trustee of the Smith Family Voting Trust.

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

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

Mr. Smith, 57, has been a director of our company since 2001. He is a member of the Audit Committee of the Board. He has served as a product business manager for Strattec Security Corporation since 1997. Strattec Security Corporation designs, develops, manufactures and markets automotive access control products including mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, and related access control products for major automotive manufacturers. In 2019, Mr. Smith was appointed one of three trustees of the Smith Family Voting Trust, which holds a controlling position in the stock of our company. Mr. Smith is a first cousin of Bruce M. Smith, also a director of our company and is also a trustee of the Smith Family Voting Trust.

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

**KEVIN J. WHEELER** President and Chief Executive Officer, A. O. Smith Corporation.

Mr. Wheeler, 59, has been a director of our company since 2017. He is a member of the Investment Policy Committee of the Board. Mr. Wheeler was elected president and chief executive officer of our company effective September 1, 2018. From May 2017 to August 2018, he was president and chief operating officer of our company. From 2013 to 2017, Mr. Wheeler held the position of senior vice president of A. O. Smith Corporation and president and general manager of its North America, India, Europe Water Heating and Export business, which is the company's largest operating unit. Mr. Wheeler previously served as managing director of our company's European operations, where he had responsibility for water heater business in Europe and the Middle East, and upon his return to the United States from the Netherlands, served as Vice President-International, with responsibility for all European and Asian operations, including China. Mr. Wheeler joined the company in 1993 as a regional sales manager and has held positions of increasing responsibility.

Mr. Wheeler has extensive sales, manufacturing and international experience in various executive positions with our company, most recently as our president and chief executive officer, and brings to the Board a thorough understanding of our products and markets worldwide.

**Table of Contents**

**NOMINEES COMMON STOCK**

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

Mr. Greubel, 67, has been a director of our company since 2006. He is the chairperson of the Nominating and Governance Committee and a member of the Personnel and Compensation Committee of the Board. Mr. Greubel was the chief executive officer of Wabash National from 2002 to 2007 and held various director positions with Wabash National, including chairman and executive director, until his retirement as a director in 2009. Wabash National is one of the leading manufacturers of semi-truck trailers in North America, specializing in the design and production of dry freight vans, refrigerated vans, flatbed trailers, drop deck trailers, dry and wet trailers and intermodal equipment. Mr. Greubel previously was chief executive officer of Accuride Corporation from 1998 until 2002 and president from 1994 until 1998. Mr. Greubel served as a director of Wabash National from 2002 to 2009 and of privately held Utilimaster Corp. from 2002 to 2009.

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

**DR. ILHAM KADRI** Chief Executive Officer, Solvay S.A.

Dr. Kadri, 50, has been a director of our company since 2016. She is a member of the Audit Committee of the Board. Dr. Kadri joined Solvay S.A. effective January 1, 2019, and will assume the position of chairman of the executive committee, member of the board of directors and chief executive officer of Solvay S.A. effective March 1, 2019. Solvay is an advanced materials and specialty chemical company headquartered in Brussels, Belgium, with operations in more than 60 countries. Dr. Kadri was president and chief executive officer of Diversey, Inc. from 2017 to 2018. Diversey, Inc. is a leading provider of cleaning and hygiene products to the hospitality, healthcare, food and beverage, food service, retail and facility management sectors, with customers worldwide. Diversey, Inc. was spun off from Sealed Air Corporation in 2017, where Dr. Kadri was vice president and president of the Diversey Care division from 2013 to 2017. Prior to joining Sealed Air Corporation, Dr. Kadri was with Dow Chemical Company from 2007 until 2012, where she was the general manager of the Dow Advanced Materials Division, a specialty materials provider in the Middle East, Africa, and Europe, and the commercial director for Dow Water & Process Solutions, a global leader in sustainable separation and purification technology, following its acquisition of Rohm and Haas, where she served as a marketing director for the construction, coatings and industrial division. Dr. Kadri started her career with Royal Dutch Shell PLC in the Netherlands and has held positions of increasing financial and global responsibility with public and private companies.

Dr. Kadri has extensive international experience, having held executive leadership roles in Europe, the Middle East and Africa. In addition, as a chemical engineer, with a master's degree in physics and chemistry, and a doctorate degree in reactive extrusion, Dr. Kadri brings a unique perspective on manufacturing and research and development, with a focus on sustainability and water technology that are directly applicable to our industry. She also has broad mergers and acquisition experience that benefits our company. As an added benefit, Dr. Kadri brings gender and ethnic diversity to our Board.

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

Ms. Wolf, 66, has been a director of our company since 2005. She is a member of the Audit Committee of the Board. Ms. Wolf was president of Barnes Distribution from 2006 to 2007 and vice president of Barnes Group Inc. from 2000 to 2007. She previously was president of Barnes Distribution North America from 2004 through 2005. She joined Barnes Group Inc. as vice president and as chief operating officer of Barnes Distribution in 2000. Barnes Distribution is a leading distributor of maintenance, repair, operating and production supplies with distribution centers in North America, Europe and Asia.

Ms. Wolf has extensive executive level financial and operating experience. She is a Certified Public Accountant with audit experience and has a thorough knowledge and understanding of generally accepted



## **Table of Contents**

accounting principles and auditing standards and how they apply to budgeting and financial reporting systems. Accordingly, Ms. Wolf serves on our Audit Committee and is qualified as an audit committee financial expert under SEC regulations. Ms. Wolf also adds a distribution orientation to our Board, with a thorough understanding of distribution issues and opportunities on a worldwide basis. As an added benefit, Ms. Wolf brings gender diversity to our Board.

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

Mr. Wulf, 68, has served as a director of our company since 2003. He is the chairperson of the Audit Committee of the Board. Until his retirement in 2011, Mr. Wulf served as executive vice president of Bemis Company, Inc., where he was responsible for integration of acquisitions, as well as global corporate strategy and information technology. He previously was senior vice president and chief financial officer of Bemis Company, Inc. from 2005 to 2010; was vice president, chief financial officer and treasurer of Bemis Company, Inc., from 2002 through 2005; and was vice president and controller from 1998 to 2002. He also served as a director of Bemis Company, Inc. from 2006 until his retirement in 2011. Bemis Company, Inc. is one of the largest flexible packaging companies in the Americas.

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

## **GOVERNANCE OF OUR COMPANY**

### **The Board of Directors**

Our business is managed under the direction and oversight of the Board of Directors, who are elected by the stockholders. Directors meet their responsibilities by participating in meetings of the Board of Directors and Board Committees on which they sit, through communication with our executive chairman, chief executive officer and other officers and employees, by consulting with our independent registered public accounting firm and other third parties, by reviewing materials provided to them and by visiting our offices and plants. During 2018, the Board held five meetings. The standing Committees of the Board of Directors held a total of 23 meetings, including nine meetings that were conducted telephonically. All directors attended at least 75% of the meetings of the Board and Committees on which they served during 2018. Although we have no formal policy on director attendance, all ten of our then-current directors attended our 2018 Annual Meeting of Stockholders.

The nonmanagement directors of the Board met in executive session without management present five times in 2018. The presiding director who presides at such meetings rotates on an annual basis among the chairpersons of the following Committees in the following order: Audit Committee, Nominating and Governance Committee, Personnel and Compensation Committee and Investment Policy Committee. The presiding director from April 2018 to April 2019 was Gene C. Wulf, the chairperson of the Audit Committee. The Nominating and Governance Committee designated William P. Greubel, the chairperson of the Nominating and Governance Committee, as the presiding director from April 2019 to April 2020. Any party wishing to communicate with the presiding director may send correspondence to the Presiding Director, c/o James F. Stern, Corporate Secretary, A. O. Smith Corporation, 11270 West Park Place, P.O. Box 245008, Milwaukee, Wisconsin, 53224-9508.

**Director Independence and Financial Literacy.** The Smith Family Voting Trust has the power to elect a majority of our Class A Directors, who make up a majority of the Board. As of December 31, 2018, the Smith Family Voting Trust directly or beneficially owned 96.5% of Class A Common Stock and therefore 96.5% of voting

---

**Table of Contents**

power with respect to the election of the Class A Directors. Since the Board is currently composed of six Class A Directors and four Common Stock Directors, the Smith Family Voting Trust effectively exercises control over voting power for a majority of the members of our Board of Directors, and therefore, we have qualified as a controlled company under the New York Stock Exchange ( NYSE ) rules. As a controlled company, under NYSE rules, we may choose to not have a majority of independent directors or compensation or governance committees consisting solely of independent directors. Notwithstanding our status as a controlled company, the Board has not elected to utilize the controlled company exemption in any respect because, as described below, we have a Board in which a majority of our members consist of independent directors, and all members of the Audit Committee, Personnel and Compensation Committee and Nominating and Governance Committee are independent for SEC and NYSE purposes.

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

The Committee and the Board also considered that Bruce M. Smith and Mark D. Smith are trustees who together can exercise control over the Smith Family Voting Trust and that they and their descendants are also beneficiaries of material economic interests associated with the Class A Common Stock subject to this trust. The members of the Committee and Board (other than Bruce M. Smith and Mark D. Smith) concluded that such voting power and interests do not impair the independence of either Bruce or Mark Smith and that the economic interests in stock of the company of which they and their descendants are beneficiaries align their interests with those of stockholders generally, consistent with NYSE Commentary to Rule 303A.02 (Independence Tests) which states that the Exchange does not view ownership of even a significant amount of stock, by itself, as a bar to an independence finding.

The Board has determined that Messrs. Brown, Jones, Greubel, Bruce M. Smith, Mark D. Smith and Wulf, Dr. Kadri and Ms. Wolf meet the NYSE independence requirements. Messrs. Rajendra and Wheeler are considered management directors by virtue of their current positions as executive officers of our company. Mr. Rajendra will continue to be considered a non-independent director pursuant to the NYSE rules until three years after he steps down from his role as executive chairman.

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

**Board Composition.** We believe that the makeup of the Board should be tailored to our company's evolving needs. Our goal is a mix of tenure, diversity, skills and experience on the Board, with a balance of longer-tenured, experienced directors and newer directors with fresh perspectives. Our Nominating and Governance Committee periodically reviews the experience and expertise of our Board and considers the on-going and evolving needs of the company as well as appropriate changes based on those needs and the requirements of our Corporate Governance Guidelines, including those mandating that, absent a waiver by the Board, directors not stand for election beyond age 72. Consistent with this, Mr. Gloster B. Current, Jr. retired from our Board in 2018, after eleven years of service. Likewise, the addition of Dr. Kadri to our Board in 2016 brought a new and independent perspective, particularly on international water treatment, as well as diversity. Similarly, Mr. Wheeler joined our Board in 2017, bringing more than 25 years of experience in our industry.

We believe that longer-tenured directors with experience and institutional knowledge bring critical skills to the boardroom. We believe their long-term perspective has been a great advantage to us as we entered new markets, providing both historical perspective and a better understanding of upcoming challenges. Further, we believe that long-term service does not adversely affect director independence. To the contrary, with their in-depth knowledge of

## **Table of Contents**

the company, these directors are comfortable speaking up and asking probing questions, which improves the ability of the Board to provide constructive guidance and informed oversight. Further, given the voting power exercised by the Smith Family Voting Trust, representation of the persons controlling that Trust works to align the interests of our largest stockholder with those of the Board, through their exposure to the company's strategic and operational planning and decision-making, and their active participation in the governance of the company. For all these reasons, we believe that arbitrary term limits are not necessarily beneficial and may deprive the Board of the valuable contributions of its most experienced members.

We also recognize that as a result of the leadership transition with Mr. Rajendra assuming the role of executive chairman, we are in the position of having two former chief executive officers, Mr. Jones and Mr. Rajendra, serving on the Board. We believe this structure provides a significant benefit to our company, complementing the perspectives of our new executive leadership and the members of our Board who have joined us in the past several years. Together, these individuals presided over two successive periods of highly profitable growth for our company and provide an invaluable perspective. During his tenure as chief executive officer from 2006 to 2012, Mr. Jones guided our transformation into a global water technology company while delivering a total stockholder return of over 500 percent. Mr. Rajendra built on this foundation while chief executive officer from 2013 to 2018, during which we increased earnings per share at a compound annual rate of nearly 21 percent and our market capitalization grew from approximately \$2.9 billion to \$10.5 billion. Messrs. Jones and Rajendra are also substantial stockholders of the company, owning 200,967 and 321,351 shares respectively as of December 31, 2018, and closely aligning their interests with those of stockholders generally.

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

We encourage communication with our directors. Any interested party may communicate with a particular director, all directors, nonmanagement or independent directors as a group or the presiding director by mail or courier addressed to him/her or the entire Board in care of the Corporate Secretary at the following address:

c/o James F. Stern, Corporate Secretary

A. O. Smith Corporation

11270 West Park Place

P.O. Box 245008

Milwaukee, WI 53224-9508

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

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

**Procedure for Review of Related Party Transactions.** Potential conflicts of interest must be approved in advance, including related party transactions reportable under SEC rules, or related to the Smith family, in

## **Table of Contents**

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

**Potential Director Candidates.** The Nominating and Governance Committee will consider any candidate recommended by stockholders, directors, officers, third-party search firms and other sources for nomination as a director. The Committee considers the needs of the Board and evaluates each director candidate in light of, among other things, the candidate's qualifications. All candidates' minimum qualifications are identified in the Corporate Governance Guidelines and the Criteria for Selecting Board of Director Candidates, both of which can be found on our website by clicking on Investors, then Governance, followed by Board Committees and Charters. To summarize, all nonmanagement candidates should be independent and possess substantial and significant experience which would be of value to our company in the performance of the duties of a director. Recommended candidates must be of the highest character and integrity, free of any conflicts of interest, have an inquiring mind and vision, and possess the ability to work collaboratively with others. Further, Directors should have diverse backgrounds and expertise, including diversity of gender and race, required for the Board to fulfill its duties. Each candidate must have the time available to devote to Board activities and be of an age that, if elected, the candidate could serve on the Board for at least five years before reaching the mandatory retirement age, which is 72, absent a waiver approved by the Board. Finally, we believe it appropriate for certain key members of our management to participate as members of the Board, while recognizing that a majority of independent directors must be maintained at all times. All candidates will be reviewed in the same manner, regardless of the source of the recommendation. Although not part of any formal policy, our goal is a balanced and diverse Board, with members whose skills, background and experience are complementary and, together, cover the spectrum of areas that impact our business.

A stockholder recommendation of a director candidate must be received no later than the date for submission of stockholder proposals. Please see the section of this proxy entitled, Date for Stockholder Proposals. The recommendation letter should be sent by mail to the Chairperson, Nominating and Governance Committee, c/o James F. Stern, Corporate Secretary, A. O. Smith Corporation, 11270 West Park Place, P.O. Box 245008, Milwaukee, Wisconsin 53224-9508.

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

## **Board Committees**

The Board of Directors has delegated some of its authority to Committees of the Board. There are four standing Committees: the Audit Committee, the Personnel and Compensation Committee, the Investment Policy Committee and the Nominating and Governance Committee. Each standing committee is discussed below.



## **Table of Contents**

**Audit Committee.** The Audit Committee consists of four members, each of whom meets the independence and financial literacy requirements of the NYSE and the SEC. The Audit Committee is responsible for appointing the firm that will act as our independent registered public accounting firm. The Audit Committee's duties and responsibilities are set forth in its Charter, which has been approved by the Board of Directors and is available on our website. The Board of Directors has determined that Ms. Wolf and Mr. Wulf qualify as audit committee financial experts as defined by the SEC. The Audit Committee met eleven times during 2018, with seven of those meetings being telephonic. The Report of the Audit Committee is included as part of this Proxy Statement.

**Personnel and Compensation Committee.** The Personnel and Compensation Committee is responsible for establishing and administering our compensation and benefit plans for officers, executives and management employees, including the determination of eligibility for participation in such plans. It determines the compensation to be paid to officers and certain other selected executives and evaluates the performance of the executive chairman and chief executive officer in light of established goals and objectives. As it deems appropriate, the Committee may retain independent consultants to provide recommendations as to executive compensation. The Committee reviews the recommendation of the Nominating and Governance Committee concerning any conflicts involving such consultants and makes a determination as to their independence prior to their retention. The Committee also directs the senior vice president human resources and public affairs to prepare computations for its consideration and considers recommendations of the chief executive officer as to compensation of executives other than the executive chairman and the chief executive officer. The Committee also has authority to establish subcommittees and delegate authority to such subcommittees to accomplish the duties and responsibilities of the Committee. The Committee has established a subcommittee consisting of Messrs. Brown, Greubel and Bruce Smith and delegated to it certain responsibilities of the Board and the Committee with respect to compensation under agreements and plans entered into prior to tax law changes in 2017, which are intended to qualify as grandfathered performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and to perform other duties delegated from time to time by the Board or the Committee. Each of Messrs. Brown, Greubel and Bruce Smith meets the requirements to be considered an outside director within the meaning of Section 162(m), as required for tax deductibility of the grandfathered agreements and plans.

The Personnel and Compensation Committee's duties and responsibilities are set forth in its Charter, which has been approved by the Board and is available on our website. The Committee consists of four directors, all of whom are independent under NYSE rules and have been determined to be independent of any conflict with respect to the Committee's compensation consultant. The Committee held five meetings during 2018, including two telephonic meetings. The Personnel and Compensation Committee Report is included as part of this Proxy Statement.

**Investment Policy Committee.** The Investment Policy Committee is responsible for establishing investment policy and certain other matters for all of our qualified retirement plans. The responsibilities and duties of the Investment Policy Committee are set forth in its Charter, which has been approved by the Board and is available on our website. At its April 2018 meeting, the Board appointed Mr. Wheeler to the Investment Policy Committee. Accordingly, the Investment Policy Committee now consists of three members. The Investment Policy Committee held four meetings during 2018.

**Nominating and Governance Committee.** The Nominating and Governance Committee oversees our governance processes and procedures, assists the Board in identifying qualified candidates for election as Board members, and establishes and periodically reviews criteria for selection of directors. This Committee reviews our company's and the Board Committees' structures to ensure appropriate oversight of risk. Further, the Committee provides direction to the Board as to the independence, financial literacy and financial expertise of directors, and the composition of the Board and its Committees. As part of its responsibilities, the Committee reviews the independence of consultants to the Personnel and Compensation Committee and makes recommendations to the Personnel and Compensation Committee

as to their independence. The Committee also is responsible for reviewing and making recommendations to the Board as to director compensation. The responsibilities and duties of the Nominating and Governance Committee are set forth in its Charter, which has been approved by the Board and is available on our website. The Committee consists of four members, all of whom are independent under the NYSE rules. The Nominating and Governance Committee met three times during 2018. The Report of the Nominating and Governance Committee is included as part of this Proxy Statement.

**Table of Contents**

The table below shows Committee membership and the number of meetings of the full Board and each standing Committee in 2018.

Name	Board	Audit	Personnel and Compensation	Investment Policy	Nominating and Governance
Ronald D. Brown	X		Chair		X
William P. Greubel	X		X		Chair
Paul W. Jones	X		X		X
Dr. Ilham Kadri	X	X			
Ajita G. Rajendra	Chair			X	
Bruce M. Smith	X		X	Chair	X
Mark D. Smith	X	X			
Kevin J. Wheeler	X			X	
Idelle K. Wolf	X	X			
Gene C. Wulf*	Presiding	Chair			
Number of Meetings 2018	5	11	5	4	3

\* Presiding director for the period of April 2018-April 2019.

**Our Leadership Structure**

Our company historically has employed a leadership structure where the chief executive officer also serves as chairman of the Board. We believe this structure has served us well for many years, providing a single strong leader for our company.

Effective September 1, 2018, we split the position of chairman and chief executive officer. At that time, we promoted Mr. Wheeler to chief executive officer and Mr. Rajendra retained the role of executive chairman. We have from time to time historically implemented this leadership structure as part of a planned succession, and utilized it here for the chief executive officer succession. We believe this structure ensures an orderly transition of our company leadership, which benefits our stockholders, customers, employees, business partners and other key stakeholders.

While we recognize that the executive chairman position is held by an executive officer, we believe the independent members of our Board and the four standing Board Committees provide appropriate oversight. In this regard, the Audit Committee oversees the accounting and financial reporting processes, as well as legal and compliance matters. The Personnel and Compensation Committee oversees the annual performance of our executive chairman and chief executive officer, as well as our executive compensation program. The Nominating and Governance Committee evaluates independence issues and monitors matters such as the composition of the Board and its Committees, Board performance and best practices in corporate governance. The Investment Policy Committee oversees our investments with respect to benefit plans. Each Committee is led by an independent chairperson other than the executive chairman or the chief executive officer, and as discussed in more detail in this Proxy Statement, the entire Board of Directors is

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

Further, we have a presiding director who is an independent director and chairs meetings of all nonmanagement directors in executive session, and consults with the executive chairman on Board agendas, materials and topics, as well as provides feedback from the meeting of the independent directors. These meetings

## **Table of Contents**

generally are held in conjunction with most regular Board meetings. In 2018, each in-person Board meeting included a nonmanagement directors session. This allows directors to speak candidly on any matter of interest, without the executive chairman, the chief executive officer or other managers present. In accordance with our Corporate Governance Guidelines, the role of presiding director rotates on an annual basis, as opposed to a meeting-by-meeting rotation like some companies, to provide continuity in director oversight. We believe this structure provides consistent and effective oversight of our management and our company.

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

### **Consideration of Risk**

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

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

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

We typically benchmark our compensation and benefits packages at all levels of the organization every year. Base pay, bonus targets and long-term incentives are targeted to market median for each position. Most exempt salaried positions are eligible for participation in a bonus program. For employees in a corporate function, annual incentive programs are based upon attainment of the same Return on Equity targets as our executives. Annual incentive programs at our business segments are based upon attainment of financial and strategic objectives

**Table of Contents**

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

**Corporate Responsibility and Sustainability**

We are committed to growing our business in a sustainable and socially responsible manner consistent with our Guiding Principles. This commitment has driven us to design, engineer, and manufacture highly innovative and efficient products in an environmentally responsible manner that helps reduce energy consumption, conserve water, and improve drinking water quality and public health. Consistent with this commitment, we issued our first Corporate Responsibility & Sustainability ( CRS ) report in 2018 detailing our company s historic and current CRS efforts. Our CRS report is available on our website, [www.aosmith.com](http://www.aosmith.com). To further demonstrate our commitment, we recently appointed Patricia K. Ackerman, Senior Vice President, Investor Relations, Treasurer and Corporate Responsibility and Sustainability with specific responsibility for our CRS efforts, including chairwoman of our CRS Council.

Table of Contents**DIRECTOR COMPENSATION**

Name <sup>1</sup>	Fees Earned or Paid in Cash (\$) <sup>2</sup>	Stock Awards (\$) <sup>3,4</sup>	Option Awards (\$)	Incentive Plan Compensation (\$)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$) <sup>5</sup>	Total (\$)
Ronald D. Brown	\$ 100,500	\$ 125,056					\$ 225,556
Gloster B. Current, Jr. <sup>6</sup>	22,125						22,125
William P. Greubel	100,500	125,056					225,556
Paul W. Jones	91,000	125,056					216,056
Dr. Ilham Kadri	91,000	125,056					216,056
Bruce M. Smith	118,500	125,056					243,556
Mark D. Smith	91,000	125,056					216,056
Idelle K. Wolf	91,000	125,056					216,056
Gene C. Wulf	122,250	125,056					247,306

<sup>1</sup> Mr. Rajendra and Mr. Wheeler, as employee directors, receive no compensation for their service as directors.

<sup>2</sup> Includes amounts earned during 2018, even if deferred.

<sup>3</sup> Reflects the grant date fair value of stock awards calculated in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 11 to our 2018 Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. Directors receive a stock award of Common Stock as part of their annual retainer. On April 9, 2018, each current director received a stock award worth \$125,056, or, 1,970 shares valued at \$63.48 per share, which was the adjusted average of the high and low prices on the grant date rounded up to the next whole share. Mr. Brown has deferred his receipt of 52,311 shares



until his separation from service as a director. Mr. Current deferred his receipt of 71,352 shares until his separation from service as a director, which occurred effective April 9, 2018, and thereafter, he received his deferred stock on October 8, 2018. Mr. Greubel deferred his receipt of 16,873 shares until his separation from service as a director. Mr. Bruce Smith has deferred his receipt of 39,659 shares until April 1, 2024, 8,345 shares until April 1, 2019, and 74,095 shares until his separation from service as a director. Ms. Wolf has deferred her receipt of 9,122 shares until her separation from service as a director. Deferred stock holdings include dividends on deferred stock which are paid in the form of restricted stock units.

- <sup>4</sup> Each director as of December 31, 2018, owned the following aggregate number of shares or restricted stock units in connection with service as a director: Mr. Brown, 96,207; Mr. Greubel, 16,873; Mr. Jones, 16,251; Dr. Kadri, 5,270; Mr. Bruce Smith, 137,991; Mr. Mark Smith, 111,579; Ms. Wolf, 61,145; and Mr. Wulf, 110,131. Please see the Security Ownership of Directors and Management Table for additional information.
- <sup>5</sup> None of the directors received perquisites or other personal benefits in an aggregate amount of \$10,000 or more. We reimburse directors for transportation, lodging and other expenses actually incurred in attending Board and Committee meetings.
- <sup>6</sup> Mr. Current did not stand for re-election at the April 2018 meeting. Reflects compensation paid to Mr. Current prior to his retirement.

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

In 2017, the Committee conducted a comprehensive review of its director compensation program. As part of this process, the Committee considered a Willis Towers Watson assessment of director compensation trends and other information concerning director compensation. Following review and discussion the Committee implemented a streamlined director compensation program that eliminated all meeting fees and adjusted the Board and Committee retainers accordingly, to be effective January 1, 2018.

---

**Table of Contents**

Effective January 1, 2018, Directors received a cash annual retainer of \$65,000, paid in quarterly amounts of \$16,250. The presiding director retainer of \$20,000 annually remained unchanged. Each Personnel and Compensation Committee and Investment Policy Committee member received an annual retainer of \$13,000, paid quarterly, and each member of the Nominating and Governance Committee received \$10,500 annually, with the chairperson of each of these Committees receiving an additional \$7,000 annual retainer. Each Audit Committee member received an annual retainer of \$23,500, paid quarterly with the chairperson receiving an additional \$10,000 annual retainer. The award of shares of Common Stock to each director remained unchanged. Each director received Common Stock with a market value of \$125,000 on the date of the award. In July 2018, the Committee conducted its annual review and, based on the results of the annual benchmarking of director compensation provided by Willis Towers Watson, the Committee recommended and the Board approved adjustments to the Board member and Committee retainers. Directors receive a cash annual retainer of \$70,000, paid in quarterly amounts of \$17,500 and the presiding director receives an additional retainer of \$25,000 annually. Each Personnel and Compensation Committee and Investment Policy Committee member receives an annual retainer of \$13,000, paid quarterly, and each member of the Nominating and Governance Committee receives \$10,500 annually, paid quarterly with the chairperson of each of these Committees receiving an additional \$12,000 annual retainer. Each Audit Committee member receives an annual retainer of \$23,500, paid quarterly with the chairperson receiving an additional \$17,500 annual retainer. The award of shares of Common Stock to each director remains unchanged. Each director receives Common Stock with a market value of \$125,000 on the date of the award. We believe this simplified director compensation program provides greater transparency with respect to director pay. Directors who are our employees are not compensated for service as directors or Committee members or for attendance at Board or Committee meetings.

The Board requires that every new director participate in a detailed orientation, including visits to our key operations. This encompasses a review of business and financial operations, meetings with business executives and others, and an overview of our corporate governance policies and procedures. New directors receive no additional compensation for their participation in orientation matters.

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

Certain directors have elected to defer the payment of their fees and receipt of Common Stock shares under the A. O. Smith Non-qualified Deferred Compensation Plan (the "Deferred Compensation Plan"). The Deferred Compensation Plan allows directors to defer all or a portion (not less than 25%) of their fees until a later date, but not later than the year in which the director ceases service as a director. Payments can be made in a lump sum or in not more than ten annual installments. This is handled as a bookkeeping entry, with gains and losses credited to the director's account each month based on the director's crediting election. The crediting election is used to designate the investment fund(s) as the basis for calculating the rate of return equivalent for the director's account. The current funds available for a crediting election are: Fidelity VIP Money Market Division, PIMCO VIT Total Return Division, Principal LifeTime 2010 Division, Principal LifeTime 2020 Division, Principal LifeTime 2030 Division, Principal LifeTime 2040 Division, Principal LifeTime 2050 Division, Principal LifeTime 2060 Division, Principal LifeTime Strategic Income Division, Principal Global Investors Equity Income Division, Vanguard VIF Balanced Division, MFS Growth Division, Vanguard VIF Equity Index Division, Vanguard VIF Mid Cap Index Division, American Century VP Mid Cap Value Division, American Funds Ins Series International Fund Division, Mellon Capital Mgmt Bond Index Division, Janus Henderson Enterprise Division, Goldman Sachs VIT Small Cap Equity Insights Division, Calvert VP Russell 2000 Small Cap Index Division and A. O. Smith Stable Value Fund. No directors elected to defer payment of director fees during 2018. Ronald D. Brown, William P. Greubel and Bruce M. Smith have deferred receipt of their stock awards,

which consequently are treated as restricted stock units. Gloster B. Current, Jr. deferred his receipt of his stock award until he retired from our Board. Dividends on stock which have been deferred as restricted stock units are also received in the form of restricted stock units based on the average of the high and low price of our Common Stock on the date of the dividend.

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

The following table shows, as of December 31, 2018, the Class A Common Stock and Common Stock of our company beneficially owned by each director, each nominee for director, each named executive officer in the Summary Compensation Table and by all directors and executive officers as a group.

Name	Class A Common Stock <sup>1,2</sup>	Percent of Class A Common Stock	Common Stock <sup>1,2</sup>	Restricted Stock Units	Options Exercisable Within 60 Days	Percent of Common Stock
Ronald D. Brown	0	0	43,896	52,311	0	*
Wei Ding	0	0	3,811	5,075	21,717	*
William P. Greubel	0	0	0	16,873	0	*
Paul W. Jones	0	0	200,967	0	0	*
Dr. Ilham Kadri	0	0	5,270	0	0	*
John J. Kita	0	0	41,917	18,565	58,282	*
Mark A. Petrarca	0	0	84,950	9,640	31,282	*
Ajita G. Rajendra	0	0	321,351 <sup>3</sup>	70,265	647,470	*
Bruce M. Smith	452,768 <sup>4</sup>	1.74%	18,292 <sup>5</sup>	122,099	0	*
Mark D. Smith	238,003 <sup>6</sup>	*	150,035 <sup>7</sup>	0	0	*
James F. Stern	0	0	153,070	13,415	41,680	*
Kevin J. Wheeler	0	0	28,705	19,130	58,812	*
Idelle K. Wolf	0	0	52,023 <sup>8</sup>	9,122	0	*
Gene C. Wulf	0	0	110,131	0	0	*
All 24 Directors, Nominees and Executive Officers as a Group	690,771	2.65%	1,286,215	202,541	989,723	1.74%

\* Represents less than one percent.

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

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

- <sup>3</sup> Included in this total are 35,947 shares beneficially owned because they are held by his spouse and 285,404 shares held by Mr. Rajendra.
- <sup>4</sup> Shares beneficially owned as a settler of a revocable family trust.
- <sup>5</sup> Included in this total are 15,892 shares that have been deferred and 2,400 shares that are beneficially owned as a settler of a revocable family trust.
- <sup>6</sup> Included in this total are 234,327 shares beneficially owned as a settler of a revocable family trust and 3,676 shares beneficially owned because they are held by his spouse.
- <sup>7</sup> Included in this total are 29,500 shares beneficially owned as a settler of a revocable family trust, 8,956 shares beneficially owned because they are held by his spouse and 111,579 shares held directly by Mark D. Smith.
- <sup>8</sup> Included in this total are 48,014 shares beneficially owned because they are held in her spouse's revocable trust.

**Compliance with Section 16(a) of the**

**Securities Exchange Act**

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than ten percent of a registered class of our company's equity securities, to file reports of ownership

## **Table of Contents**

and changes in ownership with the SEC and the NYSE. Executive officers, directors and greater than ten percent stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) Forms 3, 4 and 5 which they file.

Based solely on our review of the copies of such forms we received and written representations from certain reporting persons during fiscal year 2018, we believe that all filing requirements applicable to our executive officers, directors and greater than ten percent beneficial owners were met.

## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

#### **Compensation Philosophy**

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

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

encouraging a pay-for-performance mentality by directly relating variable compensation elements to the achievement of financial and strategic objectives without encouraging undue risk taking. Incentive plans are designed to recognize and reward accomplishing individual goals, as well as our long-term objectives; and

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

Our long-term incentive opportunities link a significant portion of executive compensation to our performance through restricted stock unit and stock option awards. Executive officers also are expected to comply with established stock ownership guidelines which require acquisition and retention of specific levels of our Common Stock. Our view is that this stock ownership encourages executive performance but discourages executives from taking undue risk.

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

Our executive compensation package is designed to strike a balance between short-term cash compensation in the form of fixed salaries and variable annual incentive plans and long-term compensation in the form of cash-based performance units and equity awards with three-year vesting periods. For the chief executive officer, approximately 25% of 2018 total target compensation was comprised of base salary, with the remaining 75% being variable compensation dependent on our company performance. The variable compensation was divided so that approximately 30% of total target compensation was attributable to annual incentive bonus and approximately 45% was long-term incentive compensation. The Committee approved a long-term incentive plan for 2018 which targeted 75% of the chief executive officer's long-term incentives, or approximately 34% of total compensation, as equity-based awards.

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

## **Table of Contents**

We believe this combination results in a competitive compensation package that provides an incentive for our executives to lead with a focus on short-term results, while positioning us for long-term sustained performance. With approximately 25-34% of their total compensation tied to equity awards, we believe the decisions of named executive officers are aligned with the best interests of our stockholders. We believe this combination of base pay and short-term and long-term incentives supports our objectives of pay-for-performance, while mitigating the potential for undue risk taking because it ties a significant portion of the executive officer's compensation to sustained, long-term performance.

We believe our compensation philosophy is appropriate and aligned with stockholders, as demonstrated by our five year stock performance. We reported GAAP earnings per share of \$2.58 for 2018. We reported record earnings in 2018, with adjusted earnings per share of \$2.61 for 2018, which was a 20.0% improvement over the prior year's adjusted earnings. Adjusted earnings in 2018 excluded \$5.0 million of after-tax restructuring and impairment costs related to a plant closing and adjusted earnings in 2017 excluded one-time charges related to U.S. Tax Reform. The table below shows our total stockholder return for December 31, 2013 to 2018 compared to the S&P 500 Index and the S&P Select Industrials Index.

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

**From December 31, 2013 to December 31, 2018**

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

## **Outside Consultants**

Just as we compete for market share in highly competitive global markets, we compete for talent in equally competitive labor environments. In order to attract and retain critical leadership in these competitive environments, we strive to provide a comprehensive and competitive total compensation package. We utilize the resources of an independent compensation consultant to aid in establishing our programs and to monitor how they compare with the



**Table of Contents**

marketplace. Specifically, the Personnel and Compensation Committee ( PCC ) has retained Willis Towers Watson, a leading global executive compensation consulting group, to advise the PCC on market trends relative to executive compensation, provide market data as requested and share input and views on issues being discussed by the PCC.

The PCC has sole authority to approve the independent compensation consultant s fees and terms of engagement on executive compensation matters. The PCC annually reviews its relationship with Willis Towers Watson to ensure its independence on executive compensation matters, taking into account the independence analysis and recommendation of the Nominating and Governance Committee ( NGC ). In making its recommendation, the NGC reviewed the independence of Willis Towers Watson and the individual representatives of Willis Towers Watson who served as the PCC s advisors, considering the following specific factors: (i) other services provided to us by Willis Towers Watson; (ii) fees paid by us to Willis Towers Watson as a percentage of Willis Towers Watson s total revenue; (iii) policies and procedures maintained by Willis Towers Watson that are designed to prevent a conflict of interest; (iv) any business or personal relationships between the individual representatives of Willis Towers Watson who advised the PCC and any member of the PCC; (v) any shares of our company s common stock owned by the individual representatives; and (vi) any business or personal relationships between our executive officers and Willis Towers Watson or the individual representatives.

We paid Willis Towers Watson \$60,827 of fees in 2018 for consulting services provided to the PCC regarding executive compensation matters. Management subscribes to various Willis Towers Watson compensation databases. Additionally, management utilizes Willis Towers Watson in various consulting capacities related to employee benefits programs and nonexecutive salaried employee compensation, as well as director compensation benchmarking. The following table sets forth the fees we paid to Willis Towers Watson in 2018 for services other than those provided to the PCC.

Service	Fees
Management Compensation Surveys and Benchmarking	\$19,650
Benefits Consulting Services	\$118,546 paid through credits against commissions earned as broker for life and disability group insurance plans. 2018 year-end credit balance: \$352,193
Director Compensation Analysis	\$19,494

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

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

Directors and Officers Questionnaire.

**Benchmarking**

We endeavor to benchmark our executive compensation against similarly situated executives in comparably sized organizations. We believe we compete for executive resources with other nonfinancial institutions across

## **Table of Contents**

multiple industrial segments. With that in mind, our consultants utilize broad-based, general industry salary surveys and regress their data to organizations with \$3.0 billion in revenues. We believe market median is an appropriate target for our total compensation program. We attempt to design both short-term and long-term incentives to produce rewards in excess of median market levels when company performance is better than target. The PCC authorized Willis Towers Watson to perform a detailed analysis of our executive compensation levels in 2018, as we do each year.

As we describe below, the PCC asked Willis Towers Watson to provide input on marketplace trends in executive compensation, and overall compensation and components of compensation for 12 executive positions. We compared each of the named executive officers at the 50<sup>th</sup> percentile of market survey data.

We utilize Willis Towers Watson because we believe its survey resources ensure consistent and statistically valid data that is representative of the market in which we compete for executive talent. Its database includes a broad array of over 750 companies. We did not rely on a specific subgroup of peer companies within that database. In working with Willis Towers Watson, we played no role in selecting the companies for which the data was obtained.

For 2018 compensation, Willis Towers Watson performed a regression analysis to reflect base pay levels of an organization with \$3.0 billion in revenue and reported its findings to the PCC in October. Its comparison focused on overall compensation, as well as base salary, annual incentive bonus, equity awards and each of the other compensation elements discussed below. We believe its methodology provides appropriate comparisons by utilizing industrial companies of comparable size and referencing databases with comparable executive officer positions.

For 2018, the PCC targeted our overall compensation and benefits programs and each element of compensation at the median level of the surveyed companies. Since a number of variables can influence the relationship of an individual executive's pay components to the survey median data, the PCC considers a range of 90% to 110% of median to be appropriate when reviewing total compensation. Although the PCC attempts to have each component of compensation in this target range, the PCC puts greater emphasis on achieving the target at the total compensation level. Variables considered include, but are not limited to, education, position tenure, previous experience, level of performance, additional responsibilities, and, as appropriate, recruitment considerations.

For 2019, we compared ourselves to the market median of other companies with revenues of \$3.3 billion.

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

At our 2018 annual meeting, our stockholders approved the compensation of our named executive officers by nearly 99% of the votes cast, which is consistent to 2017 and previous years. The PCC considered this vote when setting 2019 compensation levels for other executives and, as discussed below, made very few changes to the 2019 program.

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

The PCC annually reviews the executive chairman and chief executive officer performance and makes recommendations regarding their compensation for consideration by the full Board. Neither the chief executive officer nor the executive chairman is present during discussions regarding their compensation and they do not play any role in determining their own compensation. As it deems appropriate, the PCC utilizes the Willis Towers Watson compensation data and directs the senior vice president – human resources and public affairs to prepare computations for its consideration. With respect to other executives, the chief executive officer annually reviews performance and makes compensation recommendations to the PCC. The chief executive officer reviews compensation data provided by Willis Towers Watson, consults with the senior vice president – human resources and public affairs and considers

the individual factors listed above before making his recommendations. The PCC can exercise its discretion to modify any recommended compensation to such executives.

**Table of Contents**

**Compensation Elements**

The PCC takes a balanced approach to executive compensation. Our executive compensation package is comprised of several key components which are designed to work together to provide executives with a total compensation package that is competitive with industry norms. For 2018, total compensation included:

Annual Base Salary

Incentives

Short-Term    annual incentive bonus

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

Benefits

Executive life insurance

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

Perquisite allowance

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

**Base Salary**

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

In reviewing and approving individual base salary adjustments for the named executive officers for 2018, the PCC relied upon salary data for comparable positions from the 2017 Willis Towers Watson Executive Compensation

Database, which was aged 3% to reflect anticipated market movement from the 2017 survey through year-end 2018. Effective January 1, 2018, the PCC authorized increases of between 2.9% and 7.9% to Messrs. Rajendra, Kita, Stern, Petrarca and Ding. Mr. Wheeler received a 14.9% increase in recognition of his role of president and chief operating officer.

As of September 1, 2018, the PCC adjusted base salaries for Mr. Wheeler and Mr. Rajendra related to changes in their respective responsibilities. Mr. Wheeler was appointed president and chief executive officer, and Mr. Rajendra transitioned to the role of executive chairman. Accordingly, effective September 1, 2018, the PCC increased Mr. Wheeler's base salary an additional 50%. The PCC also adjusted Mr. Wheeler's annual incentive target, as we describe below in the section entitled, Annual Incentive Compensation and Discretionary Bonuses. Mr. Rajendra's base salary was reduced by 15% due to the realignment of responsibilities at that time.

In reviewing 2019 base salaries at its December 2018 meeting, the PCC approved increases of about 3% for Messrs. Wheeler, Kita, Stern, Petrarca and Ding. The PCC did not change Mr. Rajendra's base salary for 2019. Based upon input from Willis Towers Watson, we believe that the 2019 base salaries for our named executive officers are in the aggregate approximately 109% of the projected market median. This is within our desired target range of 90% to 110%. Further, we anticipate market increase for base salaries to average 3% in 2019, which we took into account in determining 2019 salaries.

**Table of Contents**

<b>Name</b>	<b>2018 Base Salary</b>	<b>2018 Base Salary % to Market Median</b>	<b>January 1, 2019 Base Salary</b>	<b>2019 Base Salary % to Market Median</b>
Kevin J. Wheeler eff. 9-1-2018	\$ 600,000 900,000	97% 90%	\$ 930,000	90%
Ajita G. Rajendra eff. 9-1-2018	1,060,000 900,000	107% 141%	900,000	137%
John J. Kita	566,000	104%	583,000	104%
James F. Stern	527,000	106%	543,000	106%
Mark A. Petrarca	456,000	110%	470,000	110%
Wei Ding	451,000	109%	465,000	109%

**Executive Incentive Compensation**

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

**Annual Incentive Compensation and Discretionary Bonus**

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

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

As a general principle, the portion of an executive's compensation tied to incentive compensation increases with the executive's level of responsibility. Thus, the chief executive officer's annual incentive opportunity is greater than that of the other named executive officers. We targeted an annual incentive opportunity for the chief executive officer at 120% of base pay in 2018 based upon Willis Towers Watson survey data for comparably situated executives. As a result of his election as president and chief executive officer effective on September 1, 2018, the PCC increased Mr. Wheeler's annual incentive target to 120%. The relationship of our incentive targets to market median comparisons is illustrated in the following table. No other changes were made to executive annual incentive targets during 2018.

<b>Name</b>	<b>2018 Target % of Base Salary</b>	<b>Target Incentive % to Market Median</b>
Kevin J. Wheeler	120	100
Ajita G. Rajendra	120	120
John J. Kita	75	96
James F. Stern	67	99
Mark A. Petrarca	60	100
Wei Ding	67	102



**Table of Contents**

The 2018 annual incentive plan for all corporate executives was based on achieving a target financial measure of 24.58% Return on Equity, which the PCC established at its February 2018 meeting based upon historical performance, its assessment of the 2018 business plan, the competitive environment and overall performance objectives. Return on Equity is calculated by dividing net income by stockholder equity, adjusted to exclude certain extraordinary or nonrecurring items, as provided for in the 2018 annual incentive plan. We use Return on Equity as the basis for determining annual incentive compensation for corporate executives because we believe it represents a sound measure of our performance that is easily recognized and readily used by investors and that links executive performance to stockholder interests. For Mr. Ding, the incentive plan is based on meeting the Return on Equity and other objectives, described below.

For Mr. Ding, we used four components to calculate his annual incentive: Return on Equity of 24.58% and three business unit performance objectives. Mr. Ding's incentive opportunity is based twenty percent (20%) on China earnings before interest and taxes (EBIT), twenty percent (20%) on China margin, thirty percent (30%) on China sales and thirty percent (30%) on Return on Equity as described above.

We reported record earnings in 2018 and achieved 110.5% of the corporate Return on Equity incentive bonus target and 76.2% of the combined China EBIT, China sales, China margin and corporate Return on Equity targets. Accordingly, the named executive officers were awarded incentive compensation bonuses set forth in the table below. In addition, the PCC may award discretionary bonuses it deems appropriate. The PCC approved a discretionary bonus of \$100,000 to Mr. Kita in recognition of his individual efforts in implementing a corporate restructuring.

**2018 Annual Incentive Awards and Discretionary Bonus**

<b>Name</b>	<b>Amount</b>
Kevin J. Wheeler	\$ 774,000
Ajita G. Rajendra	1,336,000
John J. Kita*	570,000
James F. Stern	391,000
Mark Petrarca	303,000
Wei Ding	231,000

\* Includes \$100,000 discretionary bonus.

**Long-Term Incentive Compensation**

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

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

to achieve long-range revenue and profitability goals.

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

Based upon the analysis provided by Willis Towers Watson in October 2017, long-term incentive grants to our named executive officers were valued in the aggregate at 86% of market median. Mr. Wheeler received two grants

**Table of Contents**

in 2018: the first, valued at \$1,100,000 during our regular grant cycle in February 2018, and a second grant valued at \$450,000 on September 1, 2018, in recognition of his new role as president and chief executive officer. The 40% market value shown for Mr. Wheeler reflects the market position of his combined 2018 grants with respect to his new role.

The following table shows long-term incentive grants to named executive officers in 2018, and compares such grants to market median.

Name	2018 Long-Term Incentives Target Value	Projected Market Median
Kevin J. Wheeler	\$ 1,550,000	40%
Ajita G. Rajendra	3,500,000	94%
John J. Kita	900,000	90%
James F. Stern	700,000	96%
Mark A. Petrarca	460,000	95%
Wei Ding	480,000	99%

**Emphasis on Performance-Based Awards**

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

Restricted stock units entitle the executive to receive a share of Common Stock for each unit when the restricted stock unit vests. Restricted stock units are time-based, but have a minimum performance threshold based on average Return on Equity that must be achieved in order to vest. The average Return on Equity is calculated by dividing net income by stockholder equity, adjusted to exclude certain extraordinary and nonrecurring items, averaged over the three-year vesting period. We use average Return on Equity because we believe it represents a sound measure of our performance that is easily recognized and readily used by investors and that links executive performance to stockholder interest over the three-year performance period of the award. The value to the executive of restricted stock units is dependent upon the value of our Common Stock at the time of vesting. Restricted stock units are used to provide a combination of retention value and incremental performance incentives. For 2018, the minimum average Return on Equity for restricted stock unit payouts was 5%.

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

The PCC elected to continue to use Return on Invested Capital ( ROIC ) as a percent of the Cost of Capital as the performance measure for performance units in 2018. We believe ROIC represents a sound measure of how effectively executives manage capital. The goal is to achieve ROIC as a percent of the Cost of Capital at or above 100%. Performing at this level means we are maintaining or creating additional stockholder value. We calculate ROIC by taking net operating profit after taxes and dividing it by total capital. As with annual incentive compensation objectives, the PCC sets targets at levels that are difficult to achieve, but with the expectation they are attainable.

Performance units are valued at the time of grant at \$100. Their value to the executive is dependent upon ROIC performance as a percent of the Cost of Capital over a three-year vesting period. For 2018, the PCC continued the performance/payout relationship previously implemented. We must earn 100% ROIC as a percent of the Cost of Capital during the measurement period in order for executives to achieve a minimum payout under the plan. At 100% performance, executives will earn 50% of their target value. Target value payouts will be earned at 324.5%

**Table of Contents**

performance over the course of the measurement period and a maximum payout of 200% of target will be earned should we return 649.0% ROIC as a percent of the Cost of Capital between January 1, 2018, and December 31, 2020.

**ROIC Achieved as a % of**

<b>Cost of Capital</b>	<b>2018 Plan Payout</b>
100.0%	50% - Minimum
324.5%	100% - Target
649.0%	200% - Maximum

Through December 2018, which includes one year of the three-year performance period, the performance units granted in February 2018 had an estimated value of approximately 136.1% of their target value. Through December 2018, which includes two years of the three-year performance period, the performance units granted in February 2017 had an estimated value of approximately 147.4% of their target value.

At target, the combined value of the three components of executive long-term incentives (stock options, restricted stock units and performance awards) should represent market median long-term incentive awards consistent with the Willis Towers Watson survey. Based upon the PCC's October 2018 analysis, target long-term incentives for our named executive officers compared to market median are reflected on the table on page 25.

**Payout of 2016-2018 Performance Awards**

Performance units awarded in February 2016 for the period 2016-2018 were paid in February 2019. These awards were based upon the ROIC as a percent of the Cost of Capital for the three-year period (2016-2018). The units originally were valued at \$100 per share. Based upon our performance during the measurement period, our ROIC exceeded the Cost of Capital by over 455.8%, which resulted in the units being paid out at \$193.5 per share.

**Timing of Awards**

Long-term incentive grants are awarded annually in February, shortly after earnings are released for the prior year. The chief executive officer has the authority to implement midyear equity grants as they relate to senior management employee promotions and new hires in order to align them as quickly as possible to stockholder interests and to make equity adjustments if circumstances warrant. This authority does not include midyear grants for executive officers.

**Share Ownership Guidelines**

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

<b>Executive</b>	<b>Guideline (Multiple of salary)</b>
Kevin J. Wheeler	5X
Ajita G. Rajendra	5X
John J. Kita	3X

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

James F. Stern	3X
Mark A. Petrarca	3X
Wei Ding	2X

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

## **Table of Contents**

### **Consideration of Risk in Executive Compensation Plans**

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

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

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

The PCC reviewed the company's annual and long-term incentive plans at the PCC's July 2018 meeting. As a result of its review, the PCC concluded that our program is unlikely to place the company at material risk. In this regard, several of our current practices effectively mitigate risk and promote performance.

As part of this process, the PCC reviewed the risk assessment process conducted by Willis Towers Watson at the PCC's direction and discussed with Willis Towers Watson any changes over the last year that could impact risk. The PCC concluded that no plan changes were implemented in 2018 that would affect the existing risk profile of any of the plans.

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

### **Executive Life Insurance**

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

### **Executive Pension**

The retirement plans provided to our executives are consistent with our philosophy of providing competitive retirement benefits for all employees in order to attract and retain critical talent, as well as ensure a secure retirement

for employees who contributed to our success over a sustained period of time.

Executive pension benefits are provided in one of two ways, depending on when the executive became eligible. One is through a qualified defined benefit plan, the A. O. Smith Retirement Plan, which closed to new entrants on January 1, 2010, and which stopped accruing benefits for participants on December 31, 2014. For executives hired



**Table of Contents**

or promoted into a qualifying executive position prior to July 2010, this defined benefit plan is complemented by a non-qualified supplemental executive retirement plan. Executives hired or promoted into a qualifying executive position after July 2010 do not participate in the existing supplemental executive retirement plan, but are eligible to participate in a defined contribution restoration plan described in the Defined Contribution Retirement Savings Plan section below.

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

**Defined Contribution Retirement Savings Plan**

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

The A. O. Smith Retirement Security Plan also provides an annual nonmatching company contribution to employee 401(k) accounts of 3% of employee base salary and bonus up to the compensation limits specified in the Internal Revenue Code. This nonmatching contribution was introduced as of January 1, 2015, at the time employees ceased accruing benefits under the A. O. Smith Retirement Plan. Additionally, a defined contribution restoration plan is available for executives who are not eligible for the supplemental executive retirement plan. They receive an annual company contribution under the A. O. Smith Non-qualified Deferred Compensation Plan of 3% of pay (base plus bonus) based on pay above the Internal Revenue Service pay limit. Mr. Wheeler and Mr. Ding are the only named executives participating in the defined contribution restoration plan.

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

**Executive Perquisites**

We provide a perquisite allowance to our senior executives except Mr. Ding, paid semimonthly. From time to time, the PCC reviews the perquisite allowance program against current market trends. In 2016, the PCC reviewed and approved freezing and grandfathering the value of the perquisite allowance at the current amount for executives currently in the perquisite allowance program. All new executives will be eligible for the executive physical program and reimbursement for tax planning and preparation services, but will not receive a semimonthly perquisite allowance. Perquisite allowances for the named executive officers are:

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

Mark A. Petrarca	35,000
Wei Ding	0

Mr. Ding is considered an executive on a foreign assignment and, in lieu of a perquisite allowance, is provided with certain expatriate benefits, including tax equalization, home leave expenses, hardship premium, housing allowance, cost of living differential, medical insurance membership and tax preparation service. These benefits are discussed in more detail in the narrative discussion following the Components of All Other Compensation Table.

## **Table of Contents**

In addition to the grandfathered perquisite allowance, executives may receive executive physicals, reimbursement for spousal travel to Board or executive meetings, including, on an infrequent basis, spousal travel on the corporate aircraft for such purpose, occasional tickets to sporting events and other items of incidental value. In 2018, spouses accompanied executives to one U.S.-based Board meeting.

## **Executive Agreements**

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

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

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

Further, in 2017 Mr. Ding was provided with a special retention award as an incentive for him to remain with our company until his normal retirement date. This retention award, which is only paid if our Return on Equity meets a specified threshold, is described in more detail in the narrative discussion following the table on Grants of Plan-Based Awards.

## **Tax Considerations**

The PCC considers its primary goal to be the design of compensation strategies that further the economic interests of our company and stockholders.

The PCC has authority to establish subcommittees and delegate authority to such subcommittees to accomplish the duties and responsibilities of the PCC. Under this authority, the PCC has established a subcommittee consisting of Messrs. Brown, Greubel and Bruce Smith to discharge the responsibilities of the PCC with respect to compensation intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code. As discussed below, the favorable tax treatment for performance-based compensation was eliminated as part of the Tax Cuts and Jobs Act. However, arrangements entered into prior to November 2, 2017 are grandfathered and the subcommittee remains in place with respect to such matters. References to the PCC in the context of performance-based compensation and equity awards to the NEOs in this Compensation Discussion and Analysis include the subcommittee.

The Tax Cuts and Jobs Act made significant changes to Section 162(m) of the Code that impact public companies, including our company. Starting with the 2018 fiscal year, only performance-based compensation that is paid pursuant

to a binding contract in effect on November 2, 2017 will be exempt from the \$1,000,000 deduction limit. Accordingly, any compensation that we pay pursuant to compensation arrangements entered into after November 2, 2017, even if performance-based, will count towards the \$1,000,000 deduction limit. In addition, the \$1,000,000 deduction limit will apply to a broader group of executives, including any individual who serves as our chief executive officer or chief financial officer at any time after January 1, 2018, plus any executive who is among

**Table of Contents**

our three most highly compensated executive officers for any fiscal year beginning with 2018. As a result of these changes made to Section 162(m) and to maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, we anticipate that some of the compensation that we provide to our executive officers may not be deductible in the future.

**Clawbacks Executive Compensation Reimbursement Policy**

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

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

Table of Contents**SUMMARY COMPENSATION TABLE**

The Summary Compensation Table reflects information concerning compensation awarded to, earned by or paid to our chief executive officer, chief financial officer and other named executive officers during fiscal years 2018, 2017 and 2016.

Name and Principal Position	Year	Salary (\$) <sup>1</sup>	Bonus (\$)	Stock Awards (\$) <sup>2</sup>	Option Awards (\$) <sup>3</sup>	Plan Compensation (\$) <sup>4</sup>	Change in Pension Non-Equity Value and Incentive Non-qualified Deferred Compensation		All Other Compensation (\$) <sup>6</sup>	Total (\$)
							Earnings (\$) <sup>5</sup>	Compensation		
Kevin J. Wheeler President and Chief Executive Officer	2018	\$ 900,000	\$ 0	\$ 588,124	\$ 588,013	\$ 1,123,000	\$ 0	\$ 253,837	\$ 3,452,974	
	2017	522,000		191,360	191,402	739,000		93,458	1,825,650	
	2016	429,000	0	174,818	174,865	642,000	88,430	94,715	1,579,982	
			0				64,584			
Ajita G. Rajendra Executive Chairman	2018	900,000	0	1,154,912	1,154,983	3,284,000	142,445	154,072	6,790,412	
	2017	1,030,000		1,039,566	1,039,504	3,079,000	1,241,561	141,532	7,571,163	
	2016	1,000,000	0	976,703	976,803	2,785,000	1,407,540	158,380	7,304,426	
			0							
John J. Kita <sup>7, 8</sup> Executive Vice President and Chief Financial Officer	2018	566,000	100,000	297,066	296,991	990,000	555,033	90,708	2,895,798	
	2017	549,000	0	277,134	277,223	969,000	817,032	84,918	2,974,307	
	2016	533,000		260,644	260,722	857,000	1,087,871	84,756	3,083,993	
			0							
James F. Stern Executive Vice President, General Counsel and Secretary	2018	527,000	0	230,982	231,026	753,000	75,872	81,542	1,899,422	
	2017	511,000		197,881	197,988	755,000	325,268	78,520	2,065,657	
	2016	496,000	0	181,469	181,482	685,000	325,644	76,916	1,946,511	
			0							
Mark A. Petrarca Sr. Vice President Human Resources and Public Affairs	2018	456,000	0	151,930	151,764	576,000	\$ 0	72,476	1,408,170	
	2017	442,000		143,458	143,535	561,000	352,197	68,553	1,710,743	
	2016	429,000	0	136,814	136,978	529,000	377,966	67,992	1,677,750	
			0							
Wei Ding <sup>8</sup> Senior Vice President; President A. O. Smith China	2018	451,000	0	158,414	158,376	521,000	\$ 0	614,355	1,903,145	
	2017	418,000		145,213	145,231	591,000		520,936	1,949,315	
			50,000				78,935			

- <sup>1</sup> Includes amounts earned in 2018, even if deferred.
- <sup>2</sup> The amounts included in the **Stock Awards** column are the aggregate grant date fair value of stock awards granted during a year calculated in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 11 to our 2018 Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.
- <sup>3</sup> The amounts included in the **Option Awards** column are the aggregate grant date fair value of stock options granted during a year calculated in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 11 to our 2018 Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.
- <sup>4</sup> Reflects the annual incentive bonus for 2018 and performance units for the period 2016 to 2018, which, respectively, for each named executive officer are as follows: Mr. Wheeler, \$774,000 and \$349,000; Mr. Rajendra, \$1,336,000 and \$1,948,000; Mr. Kita, \$470,000 and \$520,000; Mr. Stern, \$391,000 and \$362,000; Mr. Petrarca, \$303,000 and \$273,000; and Mr. Ding, \$231,000 and \$290,000.
- <sup>5</sup> Reflects the change in pension value for each named executive officer. As permitted by SEC rules, the amount shown for each executive reflects the net change in the actuarial present value of his pension benefit under these plans. The actuarial present value of the pension value for Mr. Wheeler, Petrarca and Ding decreased from December 31, 2017, to December 31, 2018, by \$52,595, \$885 and \$51,769, respectively. Pursuant to SEC rules, the amount of this decrease is not reflected in the sum shown. For 2018, the decrease in the actuarial present value of pension benefit for the indicated named executive officers was primarily attributable to an increased discount rate used to calculate the present value of this benefit.
- <sup>6</sup> Additional information regarding other compensation as provided in the **Components of 2018 All Other Compensation** Table below.
- <sup>7</sup> On January 14, 2019, we announced Mr. Kita's plan to retire effective May 1, 2019. He will be succeeded by Mr. Charles T. Lauber, Senior Vice President-Strategy and Corporate Development, effective May 1, 2019.
- <sup>8</sup> On May 3, 2018, we authorized payment of cash bonuses to certain officers, including Mr. Kita, in recognition of their efforts in implementing a corporate restructuring, as approved by the Personnel and Compensation Committee of the Board. Mr. Ding was awarded a discretionary bonus in 2017 for the China business unit reaching China revenue milestones in 2017.

**Table of Contents****COMPONENTS OF 2018 ALL OTHER COMPENSATION**

<b>Name</b>	<b>Company Contributions to Retirement and 401(k) Plans (\$)<sup>1</sup></b>	<b>Dividends on Restricted Stock and Stock Units (\$)<sup>2</sup></b>	<b>Perquisite Allowance (\$)<sup>3</sup></b>	<b>Other (\$)<sup>4</sup></b>	<b>Total (\$)</b>
Kevin J. Wheeler	\$ 58,220	\$ 12,331	\$ 40,000	\$ 143,286	\$ 253,837
Ajita G. Rajendra	25,867	55,345	60,000	12,860	154,072
John J. Kita	28,060	14,707	40,000	7,941	90,708
James F. Stern	26,695	10,590	40,000	4,257	81,542
Mark A. Petrarca	24,210	7,688	35,000	5,578	72,476
Wei Ding	40,415	8,017		565,923	614,355

<sup>1</sup> Amounts shown are company 401(k) plan matching contribution and contribution to the A. O. Smith Non-qualified Deferred Compensation Plan. For 2018, each officer received a \$9,625 company 401(k) plan matching contribution, a \$8,250 company 401(k) plan nonmatching contribution and the following Non-qualified Deferred Compensation Plan contributions: Mr. Wheeler, \$40,345; Mr. Rajendra, \$7,992; Mr. Kita, \$10,185; Mr. Stern, \$8,820; Mr. Petrarca, \$6,335; and Mr. Ding, \$22,540.

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

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

<sup>4</sup> Amounts shown include payments for life insurance premiums for all named executive officers, executive physicals, if taken, and spousal travel to Board or executive meetings for business purposes. Also reflects reimbursement of relocation expenses of \$140,019 paid to Mr. Wheeler in 2018, including associated tax equalization of \$14,200 for Mr. Wheeler in accordance with our relocation policy, which applies to every employee relocated at our request. In addition, Mr. Wheeler's spouse accompanied him on one house hunting trip aboard corporate aircraft. However, we incurred no additional cost since the plane was returning from previously scheduled business meetings with space available. Based on his expatriate assignment in China, Mr. Ding received expatriate-related benefits, including: \$408,807 in tax equalization; \$44,335 in home leave to the U.S.; \$48,000 in housing allowance; \$50,004 in hardship premium; \$3,600 in cost of living differential; \$3,529 in medical



membership insurance; \$2,500 health inspection and medical fee; and \$3,950 in tax preparation services.

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

The table below reflects the plan-based awards made under the Combined Incentive Compensation Plan to each of the named executive officers during 2018.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Awards:		Grant Date Fair Value of Stock and Option Awards (\$) <sup>4</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	Stock Awards: Number of Shares or Units (#) <sup>1</sup>	Option Awards: Number of Securities Underlying Options (#) <sup>2</sup>	
Kevin J. Wheeler	2/12/2018 <sup>5</sup>	\$ 0	\$ 1,080,000	\$ 2,160,000	N/A	N/A	N/A			
	2/12/2018 <sup>6</sup>	187,000	374,000	748,000						
	2/12/2018								24,435	\$ 61.760
	9/1/2018								16,755	57.465
	2/12/2018							5,880		
	9/1/2018							3,915		
Ajita G. Rajendra	2/12/2018 <sup>5</sup>	0	1,080,000	2,160,000	N/A	N/A	N/A			
	2/12/2018 <sup>6</sup>	595,000	1,190,000	2,380,000						
	2/12/2018								77,740	61.760
	2/12/2018							18,700		
John J. Kita	2/12/2018 <sup>5</sup>	0	424,500	849,000	N/A	N/A	N/A			
	2/12/2018 <sup>6</sup>	153,000	306,000	612,000						
	2/12/2018								19,990	61.760
	2/12/2018							4,810		
James F. Stern	2/12/2018 <sup>5</sup>	0	353,090	706,180	N/A	N/A	N/A			
	2/12/2018 <sup>6</sup>	119,000	238,000	476,000						
	2/12/2018								15,550	61.760
	2/12/2018							3,740		
Mark A. Petrarca	2/12/2018 <sup>5</sup>	0	273,600	547,200	N/A	N/A	N/A			
	2/12/2018 <sup>6</sup>	78,250	156,500	313,000						
	2/12/2018								10,215	61.760
	2/12/2018							2,460		

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

Wei Ding	2/12/2018 <sup>5</sup>	0	302,170	604,340	N/A	N/A	N/A		
	2/12/2018 <sup>6</sup>	81,500	163,000	326,000					
	2/12/2018							10,660	61,760
	2/12/2018						2,565		158,376
									158,414

- Shows the number of restricted stock units granted to each named executive officer in 2018 under the Combined Incentive Compensation Plan. Restricted stock units vest on February 12, 2021 and, for Mr. Wheeler, September 1, 2021 (three years from grant date), except in the event of dismissal or voluntary resignation prior to vesting, if not retirement eligible. The grant date fair value of these awards was \$61.760 for the February 12, 2018 grant and \$57.465 for the September 1, 2018 grant per restricted stock unit, based upon the average of the highest and lowest price on the date of grant. Dividends on restricted stock and restricted stock units are credited to the named executive officer's account in the Executive Supplemental Profit Sharing Plan.
- Shows the number of stock options granted to each named executive officer in 2018 under the Combined Incentive Compensation Plan. Options vest and become exercisable in three equal installments. For options granted on February 12, 2018, they partially vest beginning February 12, 2019, one year after the grant date. For options granted on September 1, 2018, they partially vest beginning September 1, 2019. Vested options may be exercised within 90 days of voluntary termination.
- The exercise price is the average of the highest and lowest price on the effective date of grant.
- The value of the restricted stock units and stock option awards are the aggregate grant date fair value of restricted stock units and stock options granted during a year calculated in accordance with FASB ASC Topic 718.
- Amounts reflect the threshold, target, and maximum awards that each named executive officer can earn under the Combined Incentive Compensation Plan for annual incentive bonus for 2018.
- Amounts reflect the threshold, target and maximum awards that each named executive officer can earn under the Combined Incentive Compensation Plan as performance units for the period 2018 to 2021. Performance units have a value of \$100 per unit at time of grant. The

**Table of Contents**

actual value of performance units is dependent upon ROIC performance over the three-year vesting period, as more fully explained under Compensation Discussion and Analysis Long-Term Incentive Compensation. No named executive officer at our company has an employment agreement for a specific period of time. Rather, all executives serve at the pleasure of the Board. Mr. Ding has a special retention agreement that provides if he remains employed with our company and certain corporate Return on Equity performance criteria are met, then we will pay him a retention bonus of \$500,000 on June 1, 2022, and \$1,000,000 on June 1, 2027. Each named executive officer participates in the Senior Leadership Severance Plan. See the discussion entitled, Employment Contracts, Termination of Employment and Change in Control Arrangements for additional information.

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

Table of Contents**OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2018**

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

Name	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) <sup>2</sup>	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>3</sup>	Equity Incentive Plan Awards: Market Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>3</sup>
Kevin J. Wheeler	19,900	0	0	\$ 23.235	02/10/24	5,520	\$ 235,704	0	0
	19,220	0		30.765	02/09/25	3,815	162,901		
	14,800	7,400		31.670	02/08/26	5,880	251,076		
	4,892	9,783		50.160	02/13/27	3,915	167,171		
	0	24,435		61.760	02/12/28				
	0	16,755		57.465	09/01/28				
Ajita G. Rajendra	63,600	0	0	6.983	02/08/20	30,840	1,316,868	0	0
	52,400	0		10.779	02/07/21	20,725	884,958		
	96,000	0		11.493	02/13/22	18,700	798,490		
	116,800	0		17.462	02/11/23				
	103,700	0		23.235	02/10/24				
	105,730	0		30.765	02/09/25				
	82,673	41,337		31.670	02/08/26				
	26,567	53,133		50.160	02/13/27				
0	77,740		61.760	02/12/28					
John J. Kita	29,130	0	0	30.765	02/09/25	8,230	351,421	0	0
	22,067	11,033		31.670	02/08/26	5,525	235,918		
	7,085	14,170		50.160	02/13/27	4,810	205,387		

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

	0	19,990	61.760	02/12/28					
James F. Stern	21,260	0	0	30.765	02/09/25	5,730	244,671	0	0
	15,360	7,680		31.670	02/08/26	3,945	168,452		
	5,060	10,120		50.160	02/13/27	3,740	159,698		
	0	15,550		61.760	02/12/28				
Mark A. Petrarca	16,020	0	0	30.765	02/09/25	4,320	184,464		
	11,593	5,797		31.670	02/08/26	2,860	122,122		
	3,669	7,336		50.160	02/13/27	2,460	105,042		
	0	10,215		61.760	02/12/28				
Wei Ding	0	6,143	0	31.670	02/08/26	4,580	195,566	0	0
	3,712	7,423		50.160	02/13/27	2,895	123,617		
	0	10,660		61.760	02/12/28	2,565	109,526		

<sup>1</sup> All references to shares mean shares of the company's Common Stock. Mr. Wheeler will have the right to exercise an option for 7,400 shares at the exercise price of \$31.670 on February 8, 2019; 4,891 shares at the exercise price of \$50.160 on February 13, 2019; 4,892 shares at the exercise price of \$50.160 on February 13, 2020; 8,145 shares at the exercise price of \$61.760 on February 12, 2019; 8,145 shares at the exercise price of \$61.760 on February 12, 2020; 8,145 shares at the exercise price of \$61.760 on February 12, 2021; 5,585 shares at the exercise price of \$57.465 on September 1, 2019; 5,585 shares at the exercise price of \$57.465 on September 1, 2020; and 5,585 shares at the exercise price of \$57.465 on September 1, 2021. Mr. Rajendra will have the right to exercise an option for 41,337 shares at the exercise price of \$31.670 on February 8, 2019; 26,566 shares at the exercise price of \$50.160 on February 13, 2019; 26,567 shares at the exercise price of \$50.160 on February 13, 2020; 25,914 shares at the exercise price of \$61.760 on February 12, 2019; 25,913 shares at the exercise price of \$61.760 on February 12, 2020; and 25,913 shares at the exercise price of \$61.760 on February 12, 2021. Mr. Kita will have the right to

---

**Table of Contents**

exercise an option for 11,033 shares at the exercise price of \$31.670 on February 8, 2019; 7,085 shares at the exercise price of \$50.160 on February 13, 2019; 7,085 shares at the exercise price of \$50.160 on February 13, 2020; 6,664 shares at the exercise price of \$61.760 on February 12, 2019; 6,663 shares at the exercise price of \$61.760 on February 12, 2020; and 6,663 shares at the exercise price of \$61.760 on February 12, 2021. Mr. Stern will have the right to exercise an option for 7,680 shares at the exercise price of \$31.670 on February 8, 2019; 5,060 shares at the exercise price of \$50.160 on February 13, 2019; 5,060 shares at the exercise price of \$50.160 on February 13, 2020; 5,184 shares at the exercise price of \$61.760 on February 12, 2019; 5,183 shares at the exercise price of \$61.760 on February 12, 2020; and 5,183 shares at the exercise price of \$61.760 on February 12, 2021. Mr. Petrarca will have the right to exercise an option for 5,797 shares at the exercise price of \$31.670 on February 8, 2019; 3,668 shares at the exercise price of \$50.160 on February 13, 2019; 3,668 shares at the exercise price of \$50.160 on February 13, 2020; 3,405 shares at the exercise price of \$61.760 on February 12, 2019; 3,405 shares at the exercise price of \$61.760 on February 12, 2020; and 3,405 shares at the exercise price of \$61.760 on February 12, 2021. Mr. Ding will have the right to exercise an option for 6,143 shares at the exercise price of \$31.670 on February 8, 2019; 3,711 shares at the exercise price of \$50.160 on February 13, 2019; 3,712 shares at the exercise price of \$50.160 on February 13, 2020; 3,554 shares at the exercise price of \$61.760 on February 12, 2019; 3,553 shares at the exercise price of \$61.760 on February 12, 2020; and 3,553 shares at the exercise price of \$61.760 on February 12, 2021.

- <sup>2</sup> Mr. Wheeler will vest in 5,520 restricted stock units on February 8, 2019; 3,815 restricted stock units on February 13, 2020; and 5,880 restricted stock units on February 12, 2021. Mr. Rajendra will vest in 30,840 restricted stock units on February 8, 2019; 20,725 restricted stock units on February 13, 2020; and 18,700 restricted stock units on February 12, 2021. Mr. Kita will vest in 8,230 restricted stock units on February 8, 2019; 5,525 restricted stock units on February 13, 2020; and 4,810 restricted stock units on February 12, 2021. Mr. Stern will vest in 5,730 restricted stock units on February 8, 2019; 3,945 restricted stock units on February 13, 2020; and 3,740 restricted stock units on February 12, 2021. Mr. Petrarca will vest in 4,320 restricted stock units on February 8, 2019; 2,860 restricted stock units on February 13, 2020; and 2,460 restricted stock units on February 12, 2021. Mr. Ding will vest in 4,580 restricted stock units on February 8, 2019; 2,895 restricted stock units on February 13, 2020; and 2,565 restricted stock units on February 12, 2021.
- <sup>3</sup> Market value determined by the NYSE closing market price of \$42.70 on December 31, 2018, the last trading day of the fiscal year.

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

The following table provides information related to options exercised and stock vested for each of the named executive officers during fiscal year 2018.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) <sup>1</sup>
Kevin J. Wheeler	0	\$ 0	5,360	\$ 322,190
Ajita G. Rajendra	0	0	29,500	1,773,245
John J. Kita	0	0	8,130	488,694
James F. Stern	0	0	5,930	356,452
Mark A. Petrarca	0	0	4,470	268,692
Wei Ding	11,773	400,921	4,710	283,118

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

**PENSION BENEFITS**

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Kevin J. Wheeler	A. O. Smith Retirement Plan	20.12	\$ 754,957	0
Ajita G. Rajendra	A. O. Smith Retirement Plan	9.92	434,018	0
	Executive Supplemental Pension Plan Special Pension	13.92	8,236,852	
			1,119,450	



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

Arrangement

John J. Kita	A. O. Smith Retirement Plan	26.28		0
		30.28		
	Executive Supplemental Pension Plan		1,195,260	
			7,422,003	
James F. Stern	A. O. Smith Retirement Plan			0
	Executive Supplemental Pension Plan	7.59	253,401	
		11.59	1,863,631	
Mark A. Petrarca	A. O. Smith Retirement Plan			0
	Executive Supplemental Pension Plan	15.57	507,502	
		19.57	2,298,711	
Wei Ding	A. O. Smith Retirement Plan	17.83	612,626	0

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

**Table of Contents**

We also maintain the A. O. Smith Corporation Executive Supplemental Pension Plan to provide benefits to an executive whose benefits in the A. O. Smith Retirement Plan are subject to limitations under the Internal Revenue Code and to take into account 100% of an executive's annual incentive bonus. The Executive Supplemental Pension Plan provides a benefit equivalent to 1.65% of the executive's five-year final average pay times years of credited service up to a 40-year maximum, less the benefit provided from the A. O. Smith Retirement Plan. In July 2010, the PCC decided to continue the existing Executive Supplemental Pension Plan for all executive officers participating at that time, which includes Messrs. Rajendra, Kita, Stern and Petrarca. Its decision, however, reduces the final retirement benefit for affected executives by the amount of the monthly benefit that was lost when the A. O. Smith Retirement Plan stopped accruing benefits on December 31, 2014. Executives hired or promoted to a qualifying position after July 2010 do not participate in the existing defined benefit Executive Supplemental Pension Plan. Instead, they participate in a defined contribution restoration plan that will provide a 3% contribution under the A. O. Smith Non-qualified Deferred Compensation Plan per year of pay (base salary plus annual bonus) based on compensation above the Internal Revenue Service limit. All named executive officers participate in the Executive Supplemental Pension Plan except Mr. Wheeler and Mr. Ding. Mr. Wheeler and Mr. Ding participate in the defined contribution restoration plan.

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

The Present Value of Accumulated Benefit set forth in the table above is based on assumptions and valuation dates that are the same as those used for the valuation of pension liabilities in the company's most recent Annual Report. Retirement age under the A. O. Smith Retirement Plan and the Supplemental Executive Retirement Plan is assumed to be the earliest age that an executive can retire with an unreduced benefit, which is age 64 for Mr. Kita, Mr. Wheeler, Mr. Stern, Mr. Petrarca and Mr. Ding, and 63 for Mr. Rajendra. Post-retirement mortality rates are based on the RP2014 Healthy Annuitant Mortality Table (white-collar variant), including generational improvements using scale MP2018. The assumption is made that there is no probability of pre-retirement death or termination by any other cause.

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

3.25%). As an offset to a portion of the lump-sum payment obligation to the executive, we may transfer life insurance policies to the executive valued at the cash surrender value of the life insurance policies.

We do not have a policy to grant extra years of service. One named executive has a special arrangement negotiated upon his employment with us. Having completed 10 years of service, Mr. Rajendra will be eligible for a

**Table of Contents**

payment of \$85,000 per year. Under this arrangement, the company will provide semimonthly payments of \$3,541.67 to Mr. Rajendra for the balance of his life, with the first payment commencing six months following his separation, as required by law. Payments are treated as taxable wages for FICA purposes. Mr. Rajendra's benefit is in addition to the benefits provided by the A. O. Smith Retirement Plan and the Executive Supplemental Pension Plan. This agreement was granted in order to compensate Mr. Rajendra for benefits forfeited from his prior employer upon termination.

**NON-QUALIFIED DEFERRED COMPENSATION**

<b>Name</b>	<b>Executive Contributions in 2018 (\$)</b>	<b>Registrant Contributions in 2018 (\$)<sup>1</sup></b>	<b>Aggregate Earnings in 2018 (\$)</b>	<b>Aggregate Withdrawals/ Distributions (\$)</b>	<b>Aggregate Balance at December 31, 2018 (\$)</b>
Kevin J. Wheeler	\$ 212,000	\$ 78,146	\$ (68,552)	\$ 0	\$ 1,239,986
Ajita G. Rajendra	1,177,333	63,337	(117,093)	0	2,258,466
John J. Kita	0	24,892	8,859	0	493,194
James F. Stern	408,000	19,410	(191,963)	0	2,204,811
Mark A. Petrarca	0	14,023	(16,396)	0	267,151
Wei Ding	0	46,937	1,229	0	107,742

<sup>1</sup> All registrant contributions under the A. O. Smith Non-qualified Deferred Compensation Plan in 2018 are also reported in the Summary Compensation Table.

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

Equity Insights Division, Calvert VP Russell 2000 Small Cap Index Division and A. O. Smith Stable Value Fund.

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

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

**Table of Contents**

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

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

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

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

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

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

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

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

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

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

**Table of Contents**

Upon a Qualifying Termination without a Change in Control, long-term incentive awards are treated as follows:

(i) any unvested or unearned long-term incentive awards that were granted during the calendar year of the termination date will be forfeited; (ii) unvested stock options become vested on a pro rata basis; (iii) unvested shares of restricted stock and unvested restricted stock units that vest solely on the passage of time that were granted in any calendar year before the termination become vested on a pro rata basis; and (iv) unearned performance shares and performance units, and unearned shares of restricted stock and restricted stock units that vest based on the achievement of performance goals will be paid at the end of the actual performance period on a pro rata basis based on actual performance.

Upon a Qualifying Termination within two years following a Change in Control, the named executive officers will be eligible for an enhanced benefit. The named executive officers, other than Messrs. Wheeler and Rajendra, will receive a lump-sum severance payment equal to 15 months of base salary and target bonus, and a lump-sum payment equal to 9 months of base pay and target bonus in consideration for the noncompete provisions. Messrs. Wheeler and Rajendra will receive a lump-sum payment equal to 24 months of base salary and target bonus, and a lump-sum payment equal to 12 months of base pay and target bonus in consideration for the noncompete provisions. Each named executive officer will also receive a lump-sum payment of the target bonus that would have been payable for the year of termination adjusted on a pro rata basis based on days employed during the bonus plan year. The named executive officers also will be eligible to receive continued medical and outplacement benefits during the Severance Period.

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

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

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

We list the estimated amount of compensation payable to each of our named executive officers in each situation in the tables below assuming that a Qualifying Termination or Change in Control and Qualifying Termination occurred at December 31, 2018, and that our Common Stock had a value of \$42.70, which was the closing market price for our Common Stock on December 31, 2018. The actual amount of payments and benefits can only be determined at the time of such a Qualifying Termination or Change in Control, and therefore the actual amounts would vary from the estimated amounts in the tables below.



**Table of Contents****Payments Resulting From A Qualifying Termination****December 31, 2018**

<b>Name</b>	<b>Severance</b>	<b>Pro rata Bonus<sup>1</sup></b>	<b>Stock Options</b>	<b>Restricted Stock Units</b>	<b>Performance Units<sup>2</sup></b>	<b>Medical Coverage<sup>3</sup></b>	<b>Outplacement<sup>4</sup></b>	<b>Total</b>
Kevin J. Wheeler	\$ 3,960,000	\$ 774,000	\$ 81,622	\$ 816,852	\$ 606,000	\$ 26,472	\$ 225,000	\$ 6,489,946
Ajita G. Rajendra	3,960,000	1,336,000	455,943	3,000,316	3,059,000	26,472	225,000	12,062,731
John J. Kita	1,485,750	470,000	121,698	792,726	813,000	21,135	141,500	3,845,809
James F. Stern	1,320,135	391,000	70,592	334,021	467,000	21,135	131,750	2,735,633
Mark A. Petrarca	1,094,400	303,000	53,281	248,846	349,000	15,219	114,000	2,177,746
Wei Ding <sup>5</sup>	1,129,755	231,000	45,634	260,244	366,000	30,252	112,750	2,175,635

<sup>1</sup> Upon a Qualifying Termination or retirement, pro rata bonus is based upon actual performance. The amounts in the table are based on the actual bonus for 2018.

<sup>2</sup> Upon a Qualifying Termination, payout is based upon actual performance. The amounts in the table assume the 2016-2018 award will pay out at 193.5% of target and awards for other performance periods will pay out at target.

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

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

<sup>5</sup> Excludes amounts Mr. Ding would receive under his June 1, 2017 Special Retention Agreement, discussed below, with our company in the event of a Qualifying Termination.

**Payments Resulting From A Change In Control**

**And Qualifying Termination Of Employment**

**December 31, 2018**

Name	Severance	Pro rata Bonus	Stock Options	Restricted	Performance Units	Medical Coverage <sup>1</sup>	Outplacement <sup>2</sup>	Effect of	Gross-up <sup>3</sup>	Tax Gross-up	Total
				Stock Units				Modified Excise Provision			
Kevin J. Wheeler	\$ 5,940,000	\$ 1,080,000	\$ 81,622	\$ 816,852	\$ 436,000	\$ 39,708	\$ 225,000	\$ 0	\$ 3,132,242	\$ 11,751,424	
Ajita G. Rajendra	5,940,000	1,080,000	455,947	3,000,316	2,118,000	39,708	225,000	0	0	12,858,971	
John J. Kita	1,981,000	424,500	121,694	792,726	562,000	28,179	141,500	0	0	4,051,599	
James F. Stern	1,760,180	353,090	84,710	388,570	403,000	28,179	131,750	0	0	3,149,479	
Mark A. Petrarca	1,459,200	273,600	63,941	285,364	293,000	20,292	114,000	0	0	2,509,397	
Wei Ding <sup>4</sup>	1,506,340	302,170	67,757	298,346	305,000	40,336	112,750	0	0	2,632,699	

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

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

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

<sup>4</sup> Excludes amounts Mr. Ding would receive under his June 1, 2017, Special Retention Agreement, discussed below, with our company in the event of a Change in Control.



**Table of Contents**

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

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

Mr. Ding entered into a Special Retention Agreement with our company on June 1, 2017, which provides him with a retention award if he remains employed with our company and we reach certain financial thresholds. Specifically, the award provides for a \$500,000 bonus payment to Mr. Ding on June 1, 2022 and an additional \$1,000,000 bonus payment on June 1, 2027. To qualify for the bonus, certain corporate Return on Equity performance criteria must be met each year. In the event of a Qualifying Termination by Mr. Ding, as defined in the Agreement, then the award will be paid on a pro rata basis as of the Qualifying Termination, with the payment made on the dates set forth above. Further, in the event of a Change in Control, as defined in the Agreement, the award will fully vest and be paid out in full.

In addition, each of our named executive officers is provided life insurance as discussed in the section, Executive Life Insurance. The death benefits payable as of December 31, 2018, are: \$2,700,000 for Mr. Wheeler; \$2,700,000 for Mr. Rajendra; \$1,698,000 for Mr. Kita; \$1,581,000 for Mr. Stern; \$1,368,000 for Mr. Petrarca; and \$1,353,000 for Mr. Ding. The death benefits payable after retirement are: \$900,000 for Mr. Wheeler; \$900,000 for Mr. Rajendra; \$566,000 for Mr. Kita; \$527,000 for Mr. Stern; \$456,000 for Mr. Petrarca; and \$451,000 for Mr. Ding.

**Table of Contents**

**REPORT OF THE PERSONNEL AND COMPENSATION COMMITTEE**

The Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on the Committee's review and discussion with management, the Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference in our Annual Report on Form 10-K for the year ended December 31, 2018.

Ronald D. Brown, Chairperson

William P. Greubel, Committee Member

Paul W. Jones, Committee Member

Bruce M. Smith, Committee Member

**PAY RATIO DISCLOSURE**

Our philosophy is to pay our employees competitively with similar positions in the applicable labor market. We follow this approach worldwide, whether it be an executive level position or hourly job at a foreign plant. As such, we typically benchmark by position to the applicable labor market every year, and adjust compensation to match the applicable market. By doing so, we believe we maintain a high-quality, more stable workforce. The compensation we paid to the median employee identified below was benchmarked in accordance with this process to verify competitive compensation.

As a result of rules the SEC adopted under the Dodd-Frank Act, we are providing the following disclosure about the ratio of the annual total compensation of our chief executive officer to the median annual total compensation of our employees. For the year ended December 31, 2018:

the median of the annual total compensation of all employees of our company was reasonably estimated to be \$19,316.81;

the annual total compensation of our chief executive officer was 3,872,974; and

based on this information, the ratio of the annual total compensation is estimated to be 200:1.

Mr. Wheeler was appointed president and chief executive officer on September 1, 2018. To calculate the total compensation of our chief executive officer for the pay ratio calculation above, we annualized Mr. Wheeler's compensation relative to the period that he was chief executive officer. In annualizing Mr. Wheeler's compensation, we used his annual base salary and annual incentive bonus for the time period in which he served as chief executive officer, but we used his actual long-term incentive compensation and all other compensation.

We identified our median employee using a multistep process that is permitted under the SEC rules. We first examined the annual cash compensation paid to each of our employees during 2018, which we gathered from payroll data. Then, we excluded approximately 415 employees in India and approximately 37 employees in Vietnam, as allowed under the de minimis exception to the SEC rules. The total numbers of U.S. employees and non-U.S.

employees were 4,366 and 11,960, respectively, before taking into account such exclusions and for purposes of calculating such exclusions. We annualized the total cash compensation paid to those employees who commenced work with us during 2018 and therefore did not work for us the entire calendar year. Using this annual cash compensation data, we identified 10 employees whose total cash compensation was closest to the median annual cash compensation, as we believed that our median employee was likely within such group since cash compensation reasonably reflects the total compensation for most of our employee population. We then examined the total compensation of each of the employees within such group, calculated the same way as we calculate total compensation for our named executive officers in the Summary Compensation Table, to select our median employee whose total compensation is disclosed above. The median employee is an hourly-paid factory worker at our Nanjing, China plant who in 2018 earned the U.S. dollar equivalent of \$19,316.81, which is competitive pay for this position in China.

**Table of Contents**

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

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

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

The Personnel and Compensation Committee has overseen the development and implementation of our executive compensation programs in line with these core compensation principles. The Personnel and Compensation Committee also continuously reviews, evaluates and updates our executive compensation programs to help ensure that we provide competitive compensation that motivates our named executive officers to perform at their highest levels, while increasing long-term value to our stockholders. With these core compensation principles in mind, the Personnel and Compensation Committee took the following compensation actions in 2018 to align our programs with stockholder interests:

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

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

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

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

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

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

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



**Table of Contents**

**REPORT OF THE AUDIT COMMITTEE**

The primary responsibility of the Audit Committee is to oversee our financial reporting process on behalf of the Board, to oversee the activities of our internal audit function, to appoint the independent registered public accounting firm and to report the results of the Committee's activities to the Board. Management has the primary responsibility for the financial statements and reporting process, including the systems of internal control, and Ernst & Young LLP (the independent registered public accounting firm) is responsible for auditing and reporting on those financial statements and our internal control structure. The Committee reviewed and discussed with management and the independent registered public accounting firm our audited financial statements as of and for the year ended December 31, 2018.

During 2018, the Audit Committee conducted eleven meetings, four of which were in person and seven of which were telephonic. The Committee chairperson and other members of the Committee each quarter reviewed and commented on the earnings news release and SEC Form 10-Qs, including the interim statements included therein, and met and discussed our draft Annual Report on SEC Form 10-K with the chief financial officer, general counsel, controller and independent registered public accounting firm prior to filing and public release. In addition, the Committee reviewed and ratified its Charter.

The Committee discussed with the independent registered public accounting firm the matters required to be discussed by Auditing Standard No. 1301 and Rule 2-07 of SEC Regulation S-X. Both the director of internal audit and the independent registered public accounting firm have direct access to the Audit Committee at any time on any issue of their choosing, and the Committee has the same direct access to the director of internal audit and the independent registered public accounting firm. The Committee met with the director of internal audit and the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of our internal controls, and the overall quality of our financial reporting. The Committee met separately with the company's chief financial officer and controller regarding financial reporting, and met separately with the company's general counsel on compliance matters. The Committee discussed with management the status of pending litigation, taxation and other areas of oversight relating to financial reporting and audit processes as the Committee determined to be appropriate. The Committee also reviewed with the Board and management the company's Enterprise Risk Management (ERM) program, including specific risk topics that are addressed in presentations to the Board, including information security risk and privacy compliance.

The Committee received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board for independent auditor communications with Audit Committees concerning independence. In addition, the Committee considered the compatibility of non-audit services with the independent registered public accounting firm's independence. The Audit Committee has procedures for pre-approving all audit and non-audit services provided by the independent registered public accounting firm. These procedures include reviewing and approving a budget for audit and permitted non-audit services. Audit Committee approval is required to exceed the amount of the budget for a particular category of non-audit services. The Audit Committee may delegate pre-approval authority to one or more members of the Audit Committee, which is later ratified by the full Committee. The Audit Committee concluded the provision of the non-audit services is compatible with maintaining the independent registered public accounting firm's independence.

**Table of Contents**

During the fiscal year ended December 31, 2018, Ernst & Young LLP was employed principally to perform the annual audit and to render tax services. Fees paid to Ernst & Young LLP for each of the last two fiscal years are listed in the following table:

	<b>Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Audit Service Fees	\$ 1,366,000	\$ 1,484,500
Audit Related Fees	0	42,500
Tax Fees	108,685	53,000
Total Fees	\$ 1,474,685	\$ 1,580,000

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

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC. The Committee appointed Ernst & Young LLP as our independent registered public accounting firm for fiscal 2019, subject to stockholder ratification, and preliminarily approved its estimated fees for first and second quarter reviews, audit related and tax services.

Gene C. Wulf, Chairperson

Dr. Ilham Kadri, Committee Member

Mark D. Smith, Committee Member

Idelle K. Wolf, Committee Member

## **RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED**

### **PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors of our company has appointed Ernst & Young LLP as our company's independent registered public accounting firm for 2019. Representatives of Ernst & Young LLP have been invited to be present at the 2019 Annual Meeting of Stockholders to provide a statement and respond to stockholder questions. Although not required to be submitted to a vote of the stockholders, the Board of Directors believes it appropriate to obtain stockholder ratification of the Audit Committee's action in appointing Ernst & Young LLP as our independent registered public accounting firm. The Board of Directors has itself ratified the Audit Committee's action. Should such appointment not be ratified by the stockholders, the Audit Committee will reconsider the matter. Even if the appointment is ratified, the Audit Committee, in its discretion, may select a different independent registered public accounting firm at any time during the fiscal year if it determines that such a change would be in the best interest of our company and our stockholders.

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

The Nominating and Governance Committee met three times during the year. The Committee monitored the status of legislation and related SEC regulations impacting corporate governance. The Committee also reviewed the process implemented by the Board and each Board Committee to review best practices and how they addressed risk oversight. In addition, the Committee reviewed a governance best practice or SEC topic at each of its meetings. In 2018, the Committee oversaw the engagement of an outside consultant to lead the Board through an in-depth reflection on existing corporate governance practices and best practices for Board consideration. This review is scheduled to take place in 2019. Further, the Committee reviewed and ratified its Charter, which provides that the Committee is responsible for the nomination of directors, review of director independence and compensation

## **Table of Contents**

committee consultant independence, review of compensation to be paid to directors and our company's corporate governance practices, especially in light of SEC and NYSE rules. The Charter is posted on our website; the address of the website is [www.aosmith.com](http://www.aosmith.com).

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

The Committee also is responsible for reviewing director compensation. In 2018, the Committee implemented previously approved changes in director compensation that eliminated all meeting fees and implemented a streamlined annual retainer program for the Board and Committees, which were then adjusted to reflect annual director compensation benchmarking provided by Willis Towers Watson, as approved by the Board.

The Committee reviewed Board Committee member qualifications and independence and made recommendations to the Board on member appointments to Committees. The Committee reviewed the Board's Committee structure and operations and reported to the Board regarding them. Further, the Committee reviewed the independence of compensation consultants and made recommendations to the Personnel and Compensation Committee as to their independence.

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

William P. Greubel, Chairperson

Ronald D. Brown, Committee Member

Paul W. Jones, Committee Member

Bruce M. Smith, Committee Member

## **DATE FOR STOCKHOLDER PROPOSALS**

Proposals of stockholders pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 intended to be presented at the 2020 Annual Meeting of Stockholders must be received by us no later than October 31, 2019, to be considered for inclusion in our proxy materials for the 2020 meeting. If a stockholder who otherwise desires to bring a proposal before the 2020 meeting does not notify us of its intent to do so on or before January 14, 2020, then the proposal will be untimely, and the proxies will be able to vote on the proposal in their discretion.

February 28, 2019



**Table of Contents**

**Table of Contents**

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

**A. O. SMITH CORPORATION  
ANNUAL MEETING OF STOCKHOLDERS  
Tuesday, April 9, 2019  
8:00 a.m. Central Daylight Time  
(Meeting location and directions on back page.)**

**Important Notice Regarding the Availability of Proxy Materials for the  
Stockholders Meeting to be Held on April 9, 2019.**

Notice is hereby given that the Annual Meeting of Stockholders of A. O. Smith Corporation will be held at the Lloyd R. Smith Corporate Technology Center, 11100 West Park Place, Milwaukee, Wisconsin on Tuesday, April 9, 2019, at 8:00 a.m. Central Daylight Time.

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

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

If you want to receive a paper copy or an email with links to the electronic materials, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed on the reverse side of this notice on or before March 26, 2019, to facilitate timely delivery.

**Admission**

All stockholders must pre-register in order to attend the Annual Meeting of Stockholders of A. O. Smith Corporation. Please contact us by e-mail at [2019stockholdersmeeting@aosmith.com](mailto:2019stockholdersmeeting@aosmith.com) or by telephone at 414-359-4000 and provide your name, address, telephone number and your request to attend. We will respond to all pre-registration requests and will maintain a list of verified stockholders at the admission desk for the meeting. In addition to ownership confirmation, you must also present government-issued photo identification showing your name, address and signature for admission. Annual meeting pre-registration requests must be received by the end of business on Friday, April 5, 2019. Seating and parking are limited and admission is on a first-come basis.

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

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

1. Election of our Directors;
2. Approval, by nonbinding advisory vote, of compensation for our named executive officers;
3. Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm.

**THIS IS NOT A FORM FOR VOTING**

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

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

Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 11:59 p.m. (CDT) on April 5, 2019.

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

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



**Table of Contents**

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

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

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

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

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

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

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

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

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

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

**Information about the Notice:**

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

**To view the proxy materials online:**

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

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

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

**Directions to Annual Meeting of Stockholders on April 9, 2019:**

**Location:** Lloyd R. Smith Corporate Technology Center

11100 West Park Place

Milwaukee, Wisconsin 53224

**Directions:** From Milwaukee General Mitchell Airport:

Exit Airport and take ramp on right to I-41 North/I-894 West/I-43 South. Continue straight onto I-41 North. At Exit 47B, take Good Hope Road. Keep right and take ramp to Park Place. At stop sign, turn right and arrive at Lloyd R. Smith Corporate Technology Center.

**Table of Contents**

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

**Vote by Internet, Telephone or Mail**

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

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

Your phone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your Proxy Card.

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

Use the Internet to vote your proxy until 11:59 p.m. (CDT) on April 7, 2019.

**PHONE 1-866-883-3382**

Use a touch-tone telephone to vote your proxy until 11:59 p.m. (CDT) on April 7, 2019.

**MAIL** Mark, sign and date your Proxy Card and return it in the postage-paid envelope provided or return it to A. O. SMITH CORPORATION, c/o Shareowner Services, P.O. Box 64873, St. Paul, MN 55164-0873. Your proxy must be received by April 8, 2019.

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

*ò Detach here ò*

**A. O. SMITH CORPORATION 2019 ANNUAL MEETING**

**PROXY - COMMON STOCK**

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

This proxy when properly executed will be voted in the manner directed herein by the undersigned. If no direction is made, this proxy will be voted FOR proposals 1, 2 and 3.

1.	Election of directors:	01	William P. Greubel	03	Idelle K. Wolf	Vote FOR	Vote WITHHOLD
		02	Dr. Ilham Kadri	04	Gene C. Wulf	all nominees (except as marked)	from all nominees

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

- |    |  |     |         |         |
|----|--|-----|---------|---------|
| 2. | Proposal to approve, by nonbinding advisory vote, the compensation of our named executive officers:                              | For | Against | Abstain |
| 3. | Proposal to ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the corporation: | For | Against | Abstain |

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

Date \_\_\_\_\_  
\_\_\_\_\_

**I plan to attend meeting.**

**Address Change? Mark box, sign, and indicate changes below:**

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

Table of Contents

**ANNUAL MEETING OF STOCKHOLDERS**

**Tuesday, April 9, 2019**

**8:00 a.m. Central Daylight Time**

Lloyd R. Smith Corporate Technology Center

11100 West Park Place

Milwaukee, Wisconsin

**A. O. SMITH CORPORATION**

**PROXY - COMMON STOCK**

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

The undersigned hereby appoints KEVIN J. WHEELER, JOHN J. KITA and JAMES F. STERN, or any one of them, with full power of substitution, as proxy or proxies of the undersigned to attend the Annual Meeting of Stockholders of A. O. Smith Corporation to be held on April 9, 2019, at 8:00 a.m. Central Daylight Time, at the Lloyd R. Smith Corporate Technology Center, 11100 West Park Place, Milwaukee, Wisconsin, or at any adjournment thereof, and there to vote all shares of Common Stock which the undersigned would be entitled to vote if personally present as specified upon the following matters and in their discretion upon such other matters as may properly come before the meeting.

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

**If no direction is made, this proxy will be voted FOR proposals 1, 2 and 3.**

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

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

*See reverse for voting instructions.*

**Table of Contents**

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

**Vote by Internet, Telephone or Mail**

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

Please have available the

Control Number located at the top of this  
page,

along with the last four digits of your  
Social Security

Number or Tax Identification Number.

Your phone or Internet vote authorizes the  
named

proxies to vote your shares in the same  
manner as if

you marked, signed and returned your  
Proxy Card.

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

Use the Internet to vote your proxy until 11:59 p.m.  
(CDT) on April 7, 2019.

**PHONE 1-866-883-3382**

Use a touch-tone telephone to vote your proxy until  
11:59 p.m. (CDT) on April 7, 2019.

**MAIL** Mark, sign and date your Proxy Card and return  
it in the postage-paid envelope provided or return it to

A. O. SMITH CORPORATION, c/o Shareowner Services, P.O. Box 64873, St. Paul, MN 55164-0873. Your proxy must be received by April 8, 2019.

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

ò *Detach here* ò

**A. O. SMITH CORPORATION 2019 ANNUAL MEETING**

**PROXY - CLASS A COMMON STOCK**

This proxy when properly executed will be voted in the manner directed herein by the undersigned. If no direction is made, this proxy will be voted FOR proposals 1, 2 and 3.

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

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

- |   |     |         |         |
|---|-----|---------|---------|
| 2. Proposal to approve, by nonbinding advisory vote, the compensation of our named executive officers:                              | For | Against | Abstain |
| 3. Proposal to ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the corporation: | For | Against | Abstain |

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

Date \_\_\_\_\_  
\_\_\_\_\_

**I plan to attend meeting.**

**Address Change? Mark box, sign, and indicate changes below:**

Signature(s) in Box

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

authorized officer. If a partnership,  
please sign in partnership name by  
authorized person.



Table of Contents

**ANNUAL MEETING OF STOCKHOLDERS**

**Tuesday, April 9, 2019**

**8:00 a.m. Central Daylight Time**

Lloyd R. Smith Corporate Technology Center

11100 West Park Place

Milwaukee, Wisconsin

**A. O. SMITH CORPORATION**

**PROXY CLASS A COMMON STOCK**

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

The undersigned hereby appoints KEVIN J. WHEELER, JOHN J. KITA and JAMES F. STERN, or any one of them, with full power of substitution, as proxy or proxies of the undersigned to attend the Annual Meeting of Stockholders of A. O. Smith Corporation to be held on April 9, 2019, at 8:00 a.m. Central Daylight Time, at the Lloyd R. Smith Corporate Technology Center, 11100 West Park Place, Milwaukee, Wisconsin, or at any adjournment thereof, and there to vote all shares of Class A Common Stock which the undersigned would be entitled to vote if personally present as specified upon the following matters and in their discretion upon such other matters as may properly come before the meeting.

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

**If no direction is made, this proxy will be voted FOR proposals 1, 2 and 3.**

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

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

*See reverse for voting instructions.*