SMITH A O CORP
Form 10-K
February 18, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from __________ to __________

Commission File Number 1-475

A. O. Smith Corporation

(Exact name of registrant as specified in its charter)

Delaware **(State of Incorporation)**	**39-0619790** **(I.R.S. Employer** **Identification No.)**
11270 West Park Place, Milwaukee, Wisconsin **(Address of Principal Executive Office)**	**53224-9508** **(Zip Code)**

(414) 359-4000

Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Shares of Stock Outstanding February 10, 2015**	**Name of Each Exchange on Which Registered**
Class A Common Stock (par value $5.00 per share)	**13,154,884**	**Not listed**
Common Stock (par value $1.00 per share)	**76,210,645**	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of voting stock held by non-affiliates of the registrant was $32,788,741 for Class A Common Stock and $3,975,224,843 for Common Stock as of June 30, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the company s definitive Proxy Statement for the 2015 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after the end of the registrant s fiscal year and, upon such filing, to be incorporated by reference in Part III).

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A. O. Smith Corporation

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PART 1

ITEM 1 - BUSINESS

Our company is comprised of two reporting segments: North America and Rest of World. Our Rest of World segment is primarily comprised of China, Europe and India. Both segments manufacture and market comprehensive lines of residential gas, gas tankless and electric water heaters. Both segments primarily serve their respective regions of the world. Our North America segment also manufactures and markets specialty commercial water heating equipment, condensing and non-condensing boilers and water systems tanks. Our Rest of World segment also manufactures and markets water treatment products, primarily for Asia.

On August 22, 2011, we sold our Electrical Products business (EPC) to Regal Beloit Corporation (RBC) for approximately $760 million in cash and approximately 2.83 million shares of RBC common stock valued at $140.6 million as of that date. Due to the sale, EPC has been reflected as a discontinued operation in the accompanying financial statements for all periods presented. For further information about EPC, see Note 2 to the Consolidated Financial Statements.

The following table summarizes our sales from continuing operations. This summary and all other information presented in this section should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements, which appear in Item 8 in this document.

	Years Ended December 31 (dollars in millions)				
	2014	**2013**	**2012**	**2011**	**2010**
North America	$ 1,621.7	$ 1,520.0	$ 1,430.8	$ 1,289.5	$ 1,155.4
Rest of World	768.3	668.0	542.5	455.6	368.9
Inter-segment	(34.0)	(34.2)	(34.0)	(34.6)	(35.0)
Total Sales	$ 2,356.0	$ 2,153.8	$ 1,939.3	$ 1,710.5	$ 1,489.3

NORTH AMERICA

Sales in our North America segment increased 6.7 percent or $101.7 million in 2014 compared with the prior year. The sales increase in 2014 benefitted from higher volumes of water heaters and boilers in the U.S., which were partially offset by lower water heater sales in Canada, primarily due to a decline in the value of the Canadian dollar of approximately seven percent versus the U.S. dollar. Our Lochinvar brand, which we acquired in August 2011, incrementally added approximately $143 million of sales in 2012 compared to 2011. Approximately 40 percent of Lochinvar-branded sales consist of residential and commercial water heaters while the remaining 60 percent of Lochinvar-branded sales consist primarily of boilers and related parts.

We serve residential and commercial end markets in North America with a broad range of products including:

Water heaters. Our residential and commercial water heaters come in sizes ranging from 2.5 gallon (point-of-use) models to 12,500 gallon products with varying efficiency ranges. We offer electric, natural gas, gas tankless and liquid propane models as well as solar tank units. Our North American residential water heater sales in 2014 were approximately $1 billion or 62 percent of North America sales. Typical applications for our water heaters include residences, restaurants, hotels and motels, laundries, car washes and small businesses.

Boilers. Our residential and commercial boilers range in size from 40,000 British Thermal Units (BTUs) to 5.0 million BTUs. Our commercial boilers are used primarily in space heating applications for hospitals, schools, hotels and other large commercial buildings.

Other. Our North America segment also manufactures expansion tanks, commercial solar water heating systems, swimming pool and spa heaters, and related products and parts.

A significant portion of the sales in our North America segment is derived from the replacement of existing products.

We are the largest manufacturer and marketer of water heaters in North America, and we have a leading share in both the residential and commercial markets. In the commercial market, we believe our comprehensive product line including boilers and our high-efficiency products give us a competitive advantage in this portion of the water heating industry. Our wholesale distribution channel includes more than 1,200 independent wholesale plumbing distributors with more than 4,400 selling locations serving residential and commercial end markets. We also sell our residential water heaters through the retail channel. In this channel, our customers include five of the seven largest national hardware and home center chains, including long-standing exclusive relationships with both Lowe s and Sears. Our boiler distribution channel is primarily comprised of manufacturer representative firms.

We acquired Lochinvar in 2011 for approximately $435 million including an earn-out provision that resulted in a payment of $13.5 million in December 2012. Our Lochinvar brand is one of the leading brands of residential and commercial boilers in the United States (U.S.).

Our energy efficient product offerings continue to be a sales driver of our business. Our Cyclone product family and our condensing boilers continue to be an option for commercial customers looking for high efficiency water and space heating with a short payback period through energy savings. We offer residential heat pump, condensing tank-type and tankless water heaters in North America, as well as other higher efficiency water heating solutions to round out our energy efficient product offerings.

We sell our water heating products in highly competitive markets. We compete in each of our targeted market segments based on product design, quality of products and services, performance and price. Our principal water heating and boiler competitors in North America include Rheem, Bradford White, Rinnai and Aerco. Numerous other manufacturing companies also compete.

REST OF WORLD

Sales in our Rest of World segment increased 15.0 percent, or $100.3 million, in 2014 compared with the prior year. An 18.4 percent increase in sales in China to $694.0 million was the primary source of the increase.

We have operated in China for almost 20 years. In that time, we have been aggressively expanding our presence while building A. O. Smith brand recognition in the Chinese residential and commercial markets. The Chinese water heater market is predominantly comprised of electric wall-hung, solar and gas tankless water heaters. We believe we are one of the leading suppliers of water heaters to the residential market in China, with a broad product offering including electric, gas, gas tankless, heat pump and solar units as well as combi boilers. We also manufacture and market water treatment products primarily for the residential market.

We sell water heaters in more than 7,000 retail outlets in China, of which over 1,600 exclusively sell our products. In addition, our water treatment products are sold in 4,500 retail outlets in China. Online sales continue to grow in China and in 2014 exceeded $50 million.

In 2008, we established a sales office in India and began importing products specifically designed for India from our China operations. We began manufacturing water heaters in India in 2010. Our sales in India were $15.1 million in 2014, lower than in 2013 resulting from the weakness in the housing market and the termination of a co-branding relationship with our largest distributor.

Our primary competitor in China is Haier Appliances, a Chinese company, but we also compete with Midea in the electric water heater market and Rinnai and Noritz in the gas tankless and solar water heater markets. Additionally, we compete with numerous other Chinese private and state-owned water heater and water treatment companies in China. In India, we compete with Bajaj, MTS-Racold, Venus, Haier, Havells and numerous other companies.

In addition, we sell water heaters to the European and Middle Eastern markets and water treatment products in Turkey, all of which comprised approximately seven percent of total Rest of World sales in 2014.

RAW MATERIALS

Raw materials for our manufacturing operations, primarily consisting of steel, are generally available in adequate quantities. A portion of our customers are contractually obligated to accept price changes based on fluctuations in steel prices. There has been volatility in steel costs over the last several years.

RESEARCH AND DEVELOPMENT

To improve competitiveness by generating new products and processes, we conduct research and development at our Corporate Technology Center in Milwaukee, Wisconsin, at our Global Engineering Center in Nanjing, China, and at our operating locations. Total expenditures for research and development in 2014, 2013 and 2012 were $67.9 million, $57.8 million and $51.7 million, respectively.

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PATENTS AND TRADEMARKS

We own and use in our businesses various trademarks, trade names, patents, trade secrets and licenses. We do not believe that our business as a whole is materially dependent upon any such trademark, trade name, patent, trade secret or license. However, our trade name is important with respect to our products, particularly in China, India and the U.S.

EMPLOYEES

Our operations employed approximately 12,400 employees as of December 31, 2014, primarily non-union.

BACKLOG

Due to the short-cycle nature of our businesses, none of our operations sustain significant backlogs.

ENVIRONMENTAL LAWS

Our operations are governed by a variety of federal, foreign, state and local laws intended to protect the environment. Compliance with environmental laws has not had and is not expected to have a material effect upon the capital expenditures, earnings, or competitive position of our company. See Item 3.

AVAILABLE INFORMATION

We maintain a website with the address www.aosmith.com. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor s own internet access charges, we make available free of charge through our website our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports as soon as reasonably practical after we have electronically filed such material with, or furnished such material to, the Securities and Exchange Commission (SEC).

We are committed to sound corporate governance and have documented our corporate governance practices by adopting the A. O. Smith Corporate Governance Guidelines. The Corporate Governance Guidelines, Criteria for Selection of Directors, Financial Code of Ethics, the A. O. Smith Guiding Principles, as well as the charters for the Audit, Personnel and Compensation, Nominating and Governance and the Investment Policy Committees of the Board of Directors and other corporate governance materials, may be viewed on the company s website. Any waiver of or amendments to the Financial Code of Conduct or the A. O. Smith Guiding Principles also would be posted on this website; to date there have been none. Copies of these documents will be sent to stockholders free of charge upon written request of the corporate secretary at the address shown on the cover page of this Annual Report on Form 10-K.

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ITEM 1A - RISK FACTORS

You should carefully consider the risk factors set forth below and all other information contained in this Annual Report on Form 10-K, including the documents incorporated by reference, before making an investment decision regarding our common stock. If any of the events contemplated by the following risks actually occurs, then our business, financial condition, or results of operations could be materially adversely affected. As a result, the trading price of our common stock could decline, and you may lose all or part of your investment. The risks and uncertainties below are not the only risks facing our company.

The effects of the global economic downturn could have a material adverse effect on our business

The global economy is still showing signs of stress, and could stall or reverse the course of any recovery. If this were to occur it could adversely affect consumer confidence and spending patterns which could result in decreased demand for the products we sell, a delay in purchases, increased price competition, or slower adoption of energy efficient water heaters and boilers which could negatively impact our profitability and cash flows. In addition, a deterioration in current economic conditions, including credit market conditions, could negatively impact our vendors and customers, which could result in an increase in bad debt expense, customer and vendor bankruptcies, interruption or delay in supply of materials, or increased material prices, which could negatively impact our ability to distribute, market and sell our products and our financial condition, results of operations and cash flows.

A portion of our business could be affected by a slowing Chinese economy

Our sales growth in China has averaged approximately 20 percent per year over the past three years and we anticipate sales growth of approximately two times the rate of China s gross domestic product growth in 2015. We continue to expand capacity in China to meet local demand. If the growth rate of the Chinese economy were to experience a significant slowdown or urbanization was to stall, it could adversely affect our financial condition, results of operations and cash flows.

A material loss, cancellation, reduction, or delay in purchases by one or more of our largest customers could harm our business

Net sales to our five largest customers represented approximately 35 percent of our sales in 2014. We expect that our customer concentration will continue for the foreseeable future. Our dependence on sales to a relatively small number of customers makes our relationship with each of these customers important to our business. We cannot assure that we will be able to retain our largest customers. Some of our customers may shift their purchases of products to our competitors in the future. The loss of one or more of our largest customers, any material reduction or delay in sales to these customers, our inability to successfully develop relationships with additional customers, or our inability to execute on pricing actions could have a material adverse effect on our financial position, results of operations and cash flows.

An energy efficiency regulatory change, enacted as an amendment to the National Energy Conservation Act (NAECA III), will become effective on April 16, 2015 and could negatively impact our North American business

NAECA III increases the energy efficiency standards for U.S. residential water heaters and impacts approximately 80 percent of our U.S. residential products. Residential water heaters manufactured after April 15, 2015 must meet the new standards, however, our customers may continue to sell non-compliant water heaters after the NAECA III effective date. As a result of the breadth of this new standard, the changeover to the new compliant products extensively impacts our engineering, manufacturing, logistics operations and procurement activities. The new compliant products are more expensive to manufacture, and we have announced a price increase to our customers. We may experience operating inefficiencies and one-time costs as a result of the changeover to NAECA III compliant products that could materially impact our financial position, results of operations and cash flows. In addition we may not be able to recover all of our costs incurred in ensuring that our products are compliant with the NAECA III regulation due to uncertainty over pricing actions.

Our Lochinvar-branded sales growth could stall resulting in lower than expected sales and earnings

The compound annual growth rate of Lochinvar-branded revenues has been over ten percent per year since our acquisition of Lochinvar, largely due to the transition in the boiler industry in the U.S. from lower efficiency, non-condensing boilers to higher efficiency, condensing boilers as well as new product introductions. In 2003, approximately five percent of the boilers sold in the U.S. were condensing boilers and by 2013, the percentage had grown to approximately 40 percent and our Lochinvar brand is a leader in residential and commercial condensing boilers. We expect the transition to continue, which we

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believe would result in approximately ten percent growth in Lochinvar-branded sales in 2015 and annually for the foreseeable future after 2015 in conjunction with new product introductions. If the transition to higher efficiency, condensing boilers stalls as a result of lower energy costs, another recession occurs, or our competitors technologies surpass our technology, our growth rate could be lower than expected.

A portion of our business could be adversely affected by a decline in new residential and commercial construction or a decline in replacement related volume

The recovery in residential and commercial construction activity in North America remains fragile and construction could decline again after showing improvements in 2014. We believe that the majority of the business we serve is for replacement of existing products and replacement related volume growth was strong in 2013 and 2014. Changes in replacement volume and in the construction market could negatively affect us.

A failure in our implementation of a new enterprise resource planning system

We depend on information technology to record and process customers orders, manufacture and ship products in a timely manner, and maintain the financial accuracy of our business records. We are in the process of implementing a global enterprise resource planning system that is core to our efforts to redesign and deploy new processes and migrate to a common information system across our plants over a period of several years. There is no certainty that this system will deliver the expected benefits. Implementation may impact our ability to process transactions accurately and efficiently, which could increase costs and thereby impact profitability or otherwise impact our business. In addition, the failure to either deliver the application on time, or anticipate the necessary readiness and training needs, could lead to business disruption and loss of customers and revenue and profit.

We increasingly sell our products and operate outside the U.S., which may present additional risks to our business

Approximately 38 percent of our net sales in 2014 were attributable to products sold outside of the U.S., primarily in China and Canada and to a lesser extent in Europe and India. Approximately 7,100 of our 12,400 total employees as of December 31, 2014 were located in China. At December 31, 2014, approximately $355 million of our cash and marketable securities balances were located in China. International operations generally are subject to various risks, including political, religious, and economic instability, local labor market conditions, the imposition of foreign tariffs and other trade restrictions, the impact of foreign government regulations, the effects of income taxes, governmental expropriation, the imposition or increases in withholding and other taxes on remittances and other payments by foreign subsidiaries, labor relations problems, the imposition of environmental or employment laws, or other restrictions by foreign governments and differences in business practices. Unfavorable changes in the political, regulatory, and business climate could have a material adverse effect on our financial condition, results of operations and cash flows or our ability to repatriate funds to the U.S. As of December 31, 2014, approximately $542 million of cash, cash equivalents and marketable securities were held by our foreign subsidiaries. We would incur a cost to repatriate these funds to the U.S.

Because we participate in markets that are highly competitive, our revenues could decline as we respond to competition

We sell all of our products in highly competitive markets. We compete in each of our targeted markets based on product design, reliability, quality of products and services, advanced technologies, product performance, maintenance costs and price. Some of our competitors may have greater financial, marketing, manufacturing, research and development and distribution resources than we have. We cannot assure that our products and services will continue to compete successfully with those of our competitors or that we will be able to retain our customer base or improve or maintain our profit margins on sales to our customers, all of which could materially and adversely affect our financial condition, results of operations and cash flows.

If we are unable to develop product innovations and improve our technology and expertise, we could lose customers or market share

Our success may depend on our ability to adapt to technological changes in the water heating, boiler and water treatment industries. If we are unable to timely develop and introduce new products, or enhance existing products, in response to changing market conditions or customer requirements or demands, our competitiveness could be materially and adversely affected. Our ability to develop and successfully market new products and to develop, acquire, and retain necessary intellectual property rights is essential to our continued success, but cannot reasonably be assured.

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Acquisitions have contributed to our financial results and we may not be able to identify or complete future acquisitions, which could adversely affect our future growth

Acquisitions we have made have positively impacted our results of operations. While we will continue to evaluate potential acquisitions and intend to use a significant portion of our available capital for future acquisitions, we may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms, utilize cash flows from operations, obtain regulatory approval for certain acquisitions, or otherwise complete acquisitions in the future. If we complete any future acquisitions, then we may not be able to successfully integrate the acquired businesses or operate them profitably or accomplish our strategic objectives for those acquisitions. If we complete any future acquisitions in new geographies, our unfamiliarity with local regulations and market customs may impact our ability to operate them profitably or achieve our strategic objectives for those acquisitions. Our level of indebtedness may increase in the future if we finance acquisitions with debt, which would cause us to incur additional interest expense and could increase our vulnerability to general adverse economic and industry conditions and limit our ability to service our debt or obtain additional financing. The impact of future acquisitions may have a material adverse effect on our financial condition, results of operations and cash flows.

Our international operations are subject to risks related to foreign currencies

We have significant operations outside of the U.S., primarily in China and Canada and to a lesser extent Europe and India, and therefore, hold assets, incur liabilities, earn revenues and pay expenses in a variety of currencies other than the U.S. dollar. The financial statements of our foreign subsidiaries are translated into U.S. dollars in our consolidated financial statements. As a result, we are subject to risks associated with operating in foreign countries, including fluctuations in currency exchange rates and interest rates, or hyperinflation in some foreign countries. Furthermore, typically our products are priced in foreign countries in local currencies. As a result, an increase in the value of the U.S. dollar relative to the local currencies of our foreign markets could have a negative effect on our profitability. In addition to currency translation risks, we incur a currency transaction risk whenever one of our subsidiaries enters into either a purchase or sale transaction using a currency different from the operating subsidiaries functional currency. These risks may hurt our reported sales and profits in the future or negatively impact revenues and earnings translated from foreign currencies into U.S. dollars.

Changes in regulations or standards could adversely affect our business

Our products are subject to a wide variety of statutory, regulatory and industry standards and requirements related to, among other items, energy efficiency, environmental emissions, labeling and safety. While we believe our products are currently efficient, safe and environment-friendly, a significant change to regulatory requirements, whether federal, foreign, state or local, or otherwise to industry standards, could substantially increase manufacturing costs, impact the size and timing of demand for our products, or put us at a competitive disadvantage, any of which could harm our business and have a material adverse effect on our financial condition, results of operations and cash flow.

Our business may be adversely impacted by product defects

Product defects can occur through our own product development, design and manufacturing processes or through our reliance on third parties for component design and manufacturing activities. We may incur various expenses related to product defects, including product warranty costs, product liability and recall or retrofit costs. While we maintain a reserve for product warranty costs based on certain estimates and our knowledge of current events and actions, our actual warranty costs may exceed our reserve, resulting in current period expenses and a need to increase our reserves for warranty charges. In addition, product defects and recalls may diminish the reputation of our brand. Further, our inability to cure a product defect could result in the failure of a product line or the temporary or permanent withdrawal from a product or market. Any of these events may have a material adverse impact on our financial condition, results of operations and cash flows.

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Retention of key personnel is important to our business

Attracting and retaining talented employees is important to the continued success of our business. Failure to retain key personnel, particularly on the leadership team, would have a material effect on our business and our ability to execute our business strategies in a timely and effective manner.

Our operations could be adversely impacted by material price volatility and supplier concentration

The market prices for certain raw materials we purchase, primarily steel, have been volatile. Significant increases in the cost of any of the key materials we purchase could increase our cost of doing business and ultimately could lead to lower operating earnings if we are not able to recover these cost increases through price increases to our customers. Historically, there has been a lag in our ability to recover increased material costs from customers, and that lag could negatively impact our profitability. In addition, in some cases we are dependent on a limited number of suppliers for some of the raw materials and components we require in the manufacture of our products. A significant disruption or termination of the supply from one of these suppliers could delay sales or increase costs which could result in a material adverse effect on our financial condition, results of operations and cash flows.

We are subject to regulation of our international operations that could adversely affect our business and results of operations

Due to our global operations, we are subject to many laws governing international relations, including those that prohibit improper payments to government officials and restrict where we can do business, what information or products we can supply to certain countries and what information we can provide to a non-U.S. government, including but not limited to the Foreign Corrupt Practices Act and the U.S. Export Administration Act. Violations of these laws may result in criminal penalties or sanctions that could have a material adverse effect on our financial condition, results of operations and cash flows.

Our results of operations may be negatively impacted by product liability lawsuits and claims

Our water heating and boiler products expose us to potential product liability risks that are inherent in the design, manufacture, sale and use of our products. While we currently maintain what we believe to be suitable product liability insurance, we cannot be certain that we will be able to maintain this insurance on acceptable terms, that this insurance will provide adequate protection against potential liabilities or that our insurance providers will be able to ultimately pay all insured losses. In addition, we self-insure a portion of product liability claims. A series of successful claims against us could materially and adversely affect our reputation and our financial condition, results of operations and cash flows.

Our underfunded pension plans require future pension contributions which could limit our flexibility in managing our company

Due to the significant negative investment returns in 2008 and falling interest rates in recent years, the projected benefit obligations of our defined benefit pension plans exceeded the fair value of the plan assets by approximately $133 million at December 31, 2014. U.S. employees hired after January 1, 2010 have not participated in our defined benefit plan, and benefit accruals for the majority of current salaried and hourly employees ended on December 31, 2014. We are forecasting that we will not be required to make a contribution to the plan in 2015, and we do not plan to make any voluntary contributions. However, we cannot provide any assurance that contributions will not be required in the future. Among the key assumptions inherent in our actuarially calculated pension plan obligation and pension plan expense are the discount rate and the expected rate of return on plan assets. If interest rates and actual rates of return on invested plan assets were to decrease significantly, our pension plan obligations could increase materially. The size of future required pension contributions could result in us dedicating a substantial portion of our cash flows from operations to making the contributions which could negatively impact our flexibility in managing the company.

We have significant goodwill and indefinite-lived intangible assets and an impairment of our goodwill or indefinite-lived intangible assets could cause a decline in our net worth

Our total assets include significant goodwill and indefinite-lived intangible assets. Our goodwill results from our acquisitions, representing the excess of the purchase prices we paid over the fair value of the net tangible and intangible assets we acquired. We assess whether there has been impairments in the value of our goodwill or indefinite-lived intangible assets during the fourth quarter of each calendar year or sooner if triggering events warrant. If future operating performance at our businesses

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does not meet expectations, we may be required to reflect non-cash charges to operating results for goodwill or indefinite-lived intangible asset impairments. The recognition of an impairment of a significant portion of goodwill or indefinite-lived intangible assets would negatively affect our results of operations and total capitalization, the effect of which could be material. A significant reduction in our stockholders equity due to an impairment of goodwill or indefinite-lived intangible assets may affect our ability to maintain the debt-to-capital ratio required under our existing debt arrangements. We have identified the valuation of goodwill and indefinite-lived intangible assets as a critical accounting policy. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Goodwill and Indefinite-lived Intangible Assets included in Item 7 of this Annual Report on Form 10-K.

An inability to adequately maintain our information systems and their security, as well as to protect data and other confidential information, could adversely affect our business and reputation

In the ordinary course of business, we collect and store sensitive data and information, including our proprietary and regulated business information and that of our customers, suppliers and business partners, as well as personally identifiable information about our employees. Our information systems, like those of other companies, are susceptible to outages due to natural disasters, power loss, telecommunications failures, viruses, break-ins and similar events, or breaches of security. We continue to take steps to maintain and improve data security and address these risks and uncertainties by implementing security technologies, internal controls, network and data center resiliency and recovery processes. However, any operations failure or breach of security from increasingly sophisticated cyber threats could lead to the loss or disclosure of both our and our customers financial, product and other confidential information and could result in regulatory actions and have a material adverse effect on our business and reputation.

Certain members of the founding family of our company and trusts for their benefit have the ability to influence all matters requiring stockholder approval

We have two classes of common equity: our Common Stock and our Class A Common Stock. The holders of Common Stock currently are entitled, as a class, to elect only one-third of our board of directors. The holders of Class A Common Stock are entitled, as a class, to elect the remaining directors. Certain members of the founding family of our company and trusts for their benefit (Smith Family) have entered into a voting trust agreement with respect to shares of our Class A Common Stock and shares of our Common Stock they own. As of December 31, 2014 these members of the Smith Family own approximately 61.0 percent of the total voting power of our outstanding shares of Class A Common Stock and Common Stock, taken together as a single class, and approximately 95.6 percent of the voting power of the outstanding shares of our Class A Common Stock, as a separate class. Due to the differences in the voting rights between shares of our Common Stock and shares of our Class A Common Stock, the Smith Family is in a position to control to a large extent the outcome of matters requiring a stockholder vote, including the adoption of amendments to our certificate of incorporation or bylaws or approval of transactions involving a change of control. This ownership position may increase if other members of the Smith Family enter into the voting trust agreement, and the voting power relating to this ownership position may increase if shares of our Class A Common Stock held by stockholders who are not parties to the voting trust agreement are converted into shares of our Common Stock. The voting trust agreement provides that in the event one of the parties to the voting trust agreement wants to withdraw from the trust or transfer any of its shares of our Class A Common Stock, such shares of our Class A Common Stock are automatically exchanged for shares of our Common Stock held by the trust to the extent available in the trust. In addition, the trust will have the right to purchase the shares of our Class A Common Stock and our Common Stock proposed to be withdrawn or transferred from the trust. As a result, the Smith Family members that are parties to the voting trust agreement have the ability to maintain their collective voting rights in our company even if certain members of the Smith Family decide to transfer their shares.

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ITEM 1B - UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

Properties utilized by us at December 31, 2014 were as follows:

North America

In this segment we have 12 manufacturing plants located in five states and two non-U.S. countries, of which ten are owned directly by us or our subsidiaries and two are leased from outside parties. The terms of leases in effect at December 31, 2014 expire in 2015 and 2016.

Rest of World

In this segment we have seven manufacturing plants located in four non-U.S. countries, of which three are owned directly by us or our subsidiaries and four are leased from outside parties. Initial lease terms generally provide for minimum terms of one to 20 years and have one or more renewal options. The terms of leases in effect at December 31, 2014 expire between 2015 and 2027.

Corporate and General

We consider our plants and other physical properties to be suitable, adequate, and of sufficient productive capacity to meet the requirements of our business. The manufacturing plants operate at varying levels of utilization depending on the type of operation and market conditions. The executive offices of the company, which are leased, are located in Milwaukee, Wisconsin.

ITEM 3 - LEGAL PROCEEDINGS

We are involved in various unresolved legal actions, administrative proceedings and claims in the ordinary course of our business involving product liability, property damage, insurance coverage, exposure to asbestos and other substances, patents and environmental matters, including the disposal of hazardous waste. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss or recovery, we believe, based on past experience, adequate reserves and insurance availability, that these unresolved legal actions will not have a material effect on our financial position or results of operations. A more detailed discussion of certain of these matters appear in Note 15 of Notes to Consolidated Financial Statements.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

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EXECUTIVE OFFICERS OF THE COMPANY

Pursuant to General Instruction of G(3) of Form 10-K, the following is a list of the executive officers which is included as an unnumbered Item in Part I of this report in lieu of being included in our Proxy Statement for our 2015 Annual Meeting of Stockholders.

Name (Age)	Positions Held	Period Position Was Held
Stephen S. Anderson (66)	Senior Vice President Manufacturing and Supply Chain	2011 to Present
	Senior Vice President Manufacturing and Supply Chain A. O. Smith Water Products Company	2004 to 2011
Randall S. Bednar (62)	Senior Vice President Chief Information Officer	2007 to Present
	Senior Vice President Information Technology	2006
	Vice President Information Technology	2001 to 2006
Wilfridus M. Brouwer (56)	Senior Vice President	2013 to Present
	President A. O. Smith Holdings (Barbados) SRL	2013 to Present
	Senior Vice President Asia	2009 to 2012
	President and General Manager A. O. Smith (China) Investment Co., Ltd.	2009 to 2012
Wei Ding (52)	Senior Vice President	2013 to Present
	President A.O. Smith (China) Investment Co., Ltd.; General Manager A.O. Smith (China) Water Heater Co., Ltd. and A.O. Smith (Shanghai) Water Treatment Products Co. Ltd.	2013 to Present
	President and General Manager A. O. Smith (China) Water Heater Co., Ltd.	2013
	Senior Vice President A. O. Smith Water Products Company	2011 to 2012
	Vice President China A. O. Smith Water Products Company	2006 to 2011
	General Manager A. O. Smith (China) Water Heater Co., Ltd.	1999 to 2012
Robert J. Heideman (48)	Senior Vice President Chief Technology Officer	2013 to Present
	Senior Vice President Engineering & Technology	2011 to 2012
	Senior Vice President Corporate Technology	2010 to 2011
	Vice President Corporate Technology	2007 to 2010
	Director Materials	2005 to 2007
	Section Manager	2002 to 2005

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Name (Age)	Positions Held	Period Position Was Held
John J. Kita (59)	Executive Vice President and Chief Financial Officer	2011 to Present
	Senior Vice President, Corporate Finance and Controller	2006 to 2011
	Vice President, Treasurer and Controller	1996 to 2006
	Treasurer and Controller	1995 to 1996
	Assistant Treasurer	1988 to 1994
Charles T. Lauber (52)	Senior Vice President, Strategy and Corporate Development	2013 to Present
	Senior Vice President Chief Financial Officer A. O. Smith Water Products Company	2006 to 2012
	Vice President Global Finance A. O. Smith Electrical Products Company	2004 to 2006
	Vice President and Controller A. O. Smith Electrical Products Company	2001 to 2004
	Director of Audit and Tax	1999 to 2001
Mark A. Petrarca (51)	Senior Vice President Human Resources and Public Affairs	2006 to Present
	Vice President Human Resources and Public Affairs	2005 to 2006
	Vice President Human Resources A. O. Smith Water Products Company	1999 to 2004
Ajita G. Rajendra (63)	Chairman, President and Chief Executive Officer	2014 to Present
	President and Chief Executive Officer	2013 to 2014
	President and Chief Operating Officer	2011 to 2012
	Executive Vice President	2006 to 2011
	President A. O. Smith Water Products Company	2005 to 2011
	Senior Vice President	2005 to 2007
	Senior Vice President Industrial Products Group, Kennametal Inc.	1998 to 2004
James F. Stern (52)	Executive Vice President, General Counsel and Secretary	2007 to Present
	Partner Foley & Lardner LLP	1997 to 2007
William L. Vallett Jr. (55)	Senior Vice President	2013 to Present
	Chief Executive Officer Lochinvar, LLC	2012 to Present
	Chief Executive Officer Lochinvar Corporation	1992 to 2012

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Name (Age)	Positions Held	Period Position Was Held
Kevin J. Wheeler (55)	Senior Vice President	2013 to Present
	President and General Manager North America, India and Europe Water Heating	2013 to Present
	Senior Vice President and General Manager North America, India and Europe A. O. Smith Water Products Company	2011 to 2012
	Senior Vice President and General Manager U.S. Retail A. O. Smith Water Products Company	2007 to 2011
	Vice President International A. O. Smith Water Products Company	2004 to 2007
	Managing Director A. O. Smith Water Products Company B.V.	1999 to 2004

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PART II

ITEM 5 - MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

On April 15, 2013, our board of directors declared a two-for-one stock split of our Class A Common Stock and Common Stock in the form of a 100 percent stock dividend to stockholders of record on April 30, 2013 and payable on May 15, 2013. All references in this Item 5 to numbers of A. O. Smith Corporation shares or price per share have been adjusted to reflect the split.

(a) Market Information. Our Common Stock is listed on the New York Stock Exchange under the symbol AOS. Our Class A Common Stock is not listed. Wells Fargo Shareowner Services, N.A., P.O. Box 64854, St. Paul, Minnesota, 55164-0854 serves as the registrar, stock transfer agent and the dividend reinvestment agent for our Common Stock and Class A Common Stock.

Quarterly Common Stock Price Range

2014	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
High	$ 53.98	$ 51.17	$ 50.91	$ 57.16
Low	44.56	44.14	46.36	44.60

2013	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
High	$ 37.43	$ 40.36	$ 46.09	$ 55.18
Low	31.01	33.35	36.32	42.72

(b) Holders. As of January 31, 2015, the approximate number of stockholders of record of Common Stock and Class A Common Stock were 720 and 220, respectively.

(c) Dividends. Dividends declared on the common stock are shown in Note 17 of Notes to Consolidated Financial Statements appearing elsewhere herein.