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SMITH A O CORP

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SMITH INVESTMENT CO

FORM SC 13D/A

(Amended Statement of Beneficial Ownership)

Filed 02/04/08

Address	P O BOX 245009 MILWAUKEE, WI 53224-9509
Telephone	4143594000
CIK	0000091142
Symbol	AOS
SIC Code	3621 - Motors and Generators
Industry	Electronic Instr. & Controls
Sector	Technology
Fiscal Year	12/31

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

SCHEDULE 13D

(Amendment No. 2)

Under the Securities Exchange Act of 1934

A.O. Smith Corporation

(Name of Issuer)

Common Stock, $1.00 par value

(Title of Class of Securities)

831865209

(CUSIP Number)

with a copy to:

Mark D. Gerstein
Latham & Watkins LLP
233 South Wacker Drive, Suite 5800
Chicago, Illinois 60606
(312) 876-7700

Wesley A. Ulrich
c/o Smith Investment Company
11270 West Park Place
Milwaukee, Wisconsin 53224
(414) 359-4030

(Name, Address and Telephone Number of Persons Authorized to Receive Notices and Communications)

February 2, 2008

(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g) check the following box. ☐

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 (the "Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1. NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Smith Investment Company
39-6043416

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) ☐
(b) ☐

3. SEC USE ONLY

4. SOURCE OF FUNDS

WC; OO

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ☐

6. CITIZENSHIP OR PLACE OF ORGANIZATION

Nevada

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	
7. SOLE VOTING POWER	9,626,328 (See Item 5)
8. SHARED VOTING POWER	0
9. SOLE DISPOSITIVE POWER	9,626,328 (See Item 5)
10. SHARED DISPOSITIVE POWER	0

11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9,626,328 (See Item 5)

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

(See Item 5) ☐

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

32.2% (See Item 5)

14. TYPE OF REPORTING PERSON

CO

1. NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Arthur O. Smith
N/A

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) ☐
(b) ☐

3. SEC USE ONLY

4. SOURCE OF FUNDS

OO

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ☐

6. CITIZENSHIP OR PLACE OF ORGANIZATION

United States

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	
7. SOLE VOTING POWER	4,734 (See Item 5)
8. SHARED VOTING POWER	0
9. SOLE DISPOSITIVE POWER	4,734 (See Item 5)
10. SHARED DISPOSITIVE POWER	0

11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

4,734 (See Item 5)

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

(See Item 5) ☒

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

Less than 0.1% (See Item 5)

14. TYPE OF REPORTING PERSON

OO

1. NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Bruce M. Smith
N/A

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a) ☐
(b) ☐

3. SEC USE ONLY

4. SOURCE OF FUNDS

OO

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ☐

6. CITIZENSHIP OR PLACE OF ORGANIZATION

United States

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	
7. SOLE VOTING POWER	2,649 (See Item 5)
8. SHARED VOTING POWER	0
9. SOLE DISPOSITIVE POWER	2,649 (See Item 5)
10. SHARED DISPOSITIVE POWER	0

11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,649 (See Item 5)

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

(See Item 5) ☒

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

Less than 0.1% (See Item 5)

14. TYPE OF REPORTING PERSON

OO

This Amendment No. 2 to Schedule 13D (this "Amendment") is being filed by Smith Investment Company, a Nevada corporation ("SICO"), with respect to its beneficial ownership of shares of Common Stock, par value $1.00 per share (the "Common Stock"), of A. O. Smith Corporation, a Delaware corporation ("AOS"), including shares of Common Stock issuable upon the conversion of Class A Common Stock, par value $5.00 per share (the "Class A Common Stock"), of AOS held by SICO. This Amendment amends the Schedule 13D originally filed by SICO with the Securities and Exchange Commission, on February 16, 1988, as amended by Amendment No. 1, dated February 27, 1998 (such original Schedule 13D, as previously amended and as further amended hereby, the "Schedule 13D").

Messrs. Arthur O. Smith and Bruce M. Smith (the "Other Reporting Persons") are filing this Amendment because they may be deemed to be controlling shareholders of SICO and have indirect beneficial ownership of the Common Stock reported as beneficially owned by SICO. Each Other Reporting Person disclaims beneficial ownership of the Common Stock reported as beneficially owned by SICO, and the filing of this Amendment shall not be construed as an admission that the Other Reporting Person is the beneficial owner of any such securities.

ITEM 1. SECURITY AND ISSUER.

The Schedule 13D relates to the Common Stock, par value $1.00 per share, of A.O. Smith Corporation, a Delaware corporation. The address of the principal executive office of AOS is 11270 West Park Place, Milwaukee, Wisconsin 53224.

ITEM 2. IDENTITY AND BACKGROUND.

The name and business address of SICO is Smith Investment Company, a Nevada corporation, 11270 West Park Place, Milwaukee, Wisconsin 53224. The principal businesses of SICO are: (i) holding the Common Stock and the Class A Common Stock as described in Item 5, (ii) multicolor printing and related services, which it engages in through its wholly-owned subsidiary Berlin Industries, Inc., and (iii) commercial warehousing, trucking and packaging, which it engages in through its wholly-owned subsidiary Central States Distribution Service, Inc.

The name, business address and present principal occupation or employment of the Other Reporting Persons and each executive officer and director of SICO is set forth on Annex A. All of the individuals listed on Annex A are U.S. citizens.

During the last five years, none of SICO, any of its executive officers or directors, or the Other Reporting Persons has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors). During the last five years, none of SICO, any of its executive officers or directors, or the Other Reporting Persons has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

ITEM 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

SICO beneficially owns an aggregate of 9,626,328 shares of Common Stock, which includes 8,067,252 shares of Common Stock that are issuable upon conversion of Class A Common Stock held by SICO. SICO separately reports its ownership of the Class A Common Stock on a Schedule 13G filed with the Securities and Exchange Commission. The shares of Common Stock reported as beneficially owned by SICO were acquired over a number of years, including prior to the initial public offering of AOS and subsequently as a result of open market purchases and stock dividends.

ITEM 4. PURPOSE OF TRANSACTION.

On February 2, 2008, SICO made a proposal to AOS for a business combination transaction that would result in the shareholders of SICO having direct ownership of the same number and type of AOS shares currently held by SICO. We refer to the transaction contemplated by the SICO proposal as the "proposed transaction". SICO's common stock has been valued at a significant discount to the underlying value of the AOS shares currently held by SICO. The proposed transaction is intended to allow SICO's shareholders to realize the underlying value of SICO's holdings in AOS, and provide enhanced liquidity to SICO's shareholders.

Pursuant to the proposed transaction, SICO would be merged with a newly formed subsidiary of AOS. We refer to this merger as the "proposed merger". In the proposed merger, SICO's common stock would be exchanged for newly issued shares of Class A Common Stock and Common Stock. Because the total number and type of AOS shares issued in the proposed merger would equal the number and type of AOS shares currently held by SICO, there would be no net change to the number of outstanding AOS shares. For a further description of the SICO proposal, please see the letter from SICO to AOS, dated February 2, 2008, with respect to the SICO proposal (the "Proposal Letter"), a copy of which is attached as Exhibit 1 hereto and is incorporated herein by reference, and the related press release issued by SICO on February 4, 2008, a copy of which is attached as Exhibit 2 hereto and is incorporated herein by reference.

SICO does not believe that AOS has sufficient authorized shares to issue the new shares of Class A Common Stock required in the proposed merger. Therefore, to facilitate the proposed merger, AOS would be required to amend its certificate of incorporation to increase the number of authorized shares of Class A Common Stock. After completing the proposed merger, the SICO proposal contemplates that the AOS shares currently held by SICO would be cancelled, and the number of authorized Class A Common Stock would be reduced so that the number of authorized and unissued shares of Class A Common Stock would remain unchanged as a result of the proposed transaction.

Prior to completing the proposed merger, SICO intends to distribute in a taxable transaction substantially all of its assets (other than its holdings in AOS) to SICO's shareholders. SICO's assets to be distributed include SICO's multicolor printing and related services businesses, conducted through its wholly-owned subsidiary Berlin Industries, Inc., and commercial warehousing, trucking and packaging businesses, conducted through its wholly-owned subsidiary Central States Distribution Service, Inc. The SICO proposal contemplates that substantially all of SICO's pre-closing liabilities would be discharged or assumed by the entity or entities in which SICO's other assets are held.

A special committee comprised of two independent directors from SICO's board of directors recommended the making of the SICO proposal. The SICO special committee was formed to consider possible transactions on behalf of the shareholders of SICO other than certain members of the Smith family and trusts for the benefit of certain members of the Smith family. The SICO special committee has engaged independent financial and legal advisors to assist it in completing its review. SICO's board of directors has agreed that it will not approve any transaction without the prior recommendation of the SICO special committee.

Before recommending the proposal, the SICO special committee consulted with certain SICO shareholders holding in the aggregate a majority of SICO's common stock. These shareholders separately indicated to the SICO special committee that they would support a transaction on substantially the terms of the SICO proposal. These shareholders also separately indicated to the SICO special committee that they would not support any alternative transaction that resulted in a sale of SICO or otherwise eliminated or limited the dual class voting structure at AOS.

The SICO proposal is preliminary, and remains subject to negotiation of definitive documentation; approval of SICO's special committee and board of directors; approval of AOS's board of directors; approval by the shareholders of SICO and AOS; and satisfaction of the other conditions set forth in the Proposal Letter. As of February 4, 2008, AOS and its advisors have not yet had an opportunity to respond to the SICO proposal. There can be no assurance that the proposed transaction or any other transaction will result from the SICO proposal. SICO has sought and may in the future seek the views of, hold discussions with and respond to inquiries from SICO's shareholders, including members of the Smith family and trusts for the benefit of members of the Smith family, and/or the board of directors, officers or representatives of AOS, as well as other persons, regarding the SICO proposal and alternatives thereto. In connection with these and other plans or proposals that SICO may develop, SICO may make and negotiate proposals to and with AOS and/or such other persons concerning the SICO proposal and alternatives thereto, and may enter into agreements with AOS and/or such other persons in connection with those negotiations and proposals.

Except as set forth herein, SICO and the Other Reporting Persons do not have any plans or proposals that relate to or would result in any of the actions specified in clauses (a) through (j) of the instructions to Item 4 of Schedule 13D. SICO and the Reporting Persons reserve the right to formulate plans or make proposals, and take such action with respect thereto, including any or all of the items set forth in paragraphs (a) through (j) of Item 4 of Schedule 13D and any other actions, as they may determine.

ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.

Smith Investment Company

SICO beneficially owns an aggregate of 9,626,328 shares of Common Stock, which includes 8,067,252 shares of Common Stock that are issuable upon conversion of Class A Common Stock held by SICO. This aggregate amount represents approximately 32.2% of the outstanding Common Stock (including, solely for purposes of computing this percentage, Common Stock deemed to be outstanding upon conversion of Class A Common Stock held by SICO). SICO has the sole power to vote or direct the vote of and to dispose of or direct the disposition of all of the Common Stock listed as beneficially owned by SICO.

Other Reporting Persons

The Other Reporting Persons may be deemed to be controlling shareholders of SICO and, as a result, have indirect beneficial ownership of the Common Stock reported as beneficially owned by SICO. Mr. Bruce M. Smith is Chairman and Chief Executive Officer of SICO and is a director of AOS. Mr. Arthur O. Smith is a director of SICO. He retired as Chairman and Chief Executive Officer of SICO in January 1999. Mr. Bruce M. Smith beneficially owns 75,696 shares of the outstanding common stock of SICO, which are held in trusts for the benefit of Mr. Bruce M. Smith, and 102,372 shares of the outstanding common stock of SICO are held in various trusts for the benefit of the wife and issue of Mr. Bruce M. Smith. Mr. Arthur O. Smith beneficially owns 172,034 shares of the outstanding common stock of SICO, including shares held in a trust for the benefit of Mr. Arthur O. Smith, his wife beneficially owns 6,970 shares of the outstanding common stock of SICO and 463,116 shares of the outstanding common stock of SICO are held in various trusts for the benefit of the wife and issue of Mr. Arthur O. Smith. In addition, Messrs. Smith are trustees of various trusts for the benefit of persons other than themselves, their wives and issue, which trusts hold an aggregate of 823,153 shares of the common stock of SICO. With respect to the 823,153 shares of the common stock of SICO held in trust for the benefit of persons other than Messrs. Smith and their wives and issue, Mr. Arthur O. Smith is sole trustee of trusts holding 11,000 shares of the common stock of SICO and holds all investment and voting power with respect to such trusts and Mr. Arthur O. Smith or Mr. Bruce M. Smith are co-trustees with at least one other person and hold shared investment and voting power with respect to the trusts holding the remaining shares. The shares of common stock of SICO held beneficially by Messrs. Smith and their wives, together with shares held by Messrs. Smith in trust for the benefit of others, comprised 49.5% of the 3,317,066 outstanding shares of common stock of SICO on the date hereof. Messrs. Smith disclaim that any of the foregoing relationships or interests in the common stock of SICO constitute beneficial ownership of any Common Stock, and each Other Reporting Person disclaims beneficial ownership of the Common Stock reported as beneficially owned by SICO.

Excluding the shares of Common Stock reported as beneficially held by SICO, as to which Mr. Arthur O. Smith disclaims beneficial ownership, Mr. Arthur O. Smith beneficially owns 4,734 shares of Common Stock, which represents less than 0.1% of the outstanding Common Stock. Mr. Arthur O. Smith has the sole voting and dispositive power with respect to these shares.

Excluding the shares of Common Stock beneficially held by SICO, as to which Mr. Bruce M. Smith disclaims beneficial ownership, Mr. Bruce M. Smith beneficially owns 2,649 shares of Common Stock, which represents less than 0.1% of the outstanding Common Stock. Mr. Bruce M. Smith has the sole voting and dispositive power with respect to these shares. Mr. Bruce M. Smith also has deferred receipt of stock awards representing a total of 4,554 shares of Common Stock under AOS’s Corporate Directors’ Deferred Compensation Plan. AOS treats these deferred stock awards as restricted stock units.

Executive Officers and Directors of SICO .

Mr. Edward E. Barr, a director of SICO, does not beneficially own any shares of Common Stock.

Mr. Glen R. Bomberger, a director of SICO, beneficially owns an aggregate of 33,000 shares of Common Stock, which represents approximately 0.2% of the outstanding Common Stock. Mr. Bomberger has the sole voting and dispositive power with respect to these shares.

Mr. Jere D. McGaffey, a director of SICO, beneficially owns an aggregate of 450 shares of Common Stock, which represents less than 0.1% of the outstanding Common Stock. Mr. McGaffey has the sole voting and dispositive power with respect to these shares.

Mr. Arthur O. Smith, III, a director of SICO, may be deemed to have beneficial ownership of 752.5 shares of Common Stock that he holds indirectly through the A. O. Smith Profit Sharing Retirement Plan. This represents less than 0.1% of the outstanding Common Stock.

Mr. Harold M. Stratton, II, a director of SICO, is co-trustee of a trust that holds 1,000 shares of Common Stock, which represents less than 0.1% of the outstanding Common Stock. Mr. Stratton has shared voting and dispositive power with respect to these shares.

Mr. Wesley A. Ulrich, an executive officer of SICO, beneficially owns an aggregate of 1,000 shares of Common Stock, which represents less than 0.1% of the outstanding Common Stock. Mr. Ulrich has the sole voting and dispositive power with respect to these shares.

Please see "—Other Reporting Persons" above for a description of the shares of Common Stock that may be deemed to be beneficially held by Mr. Bruce M. Smith and Mr. Arthur O. Smith.

None of SICO, any of its executive officers or directors, or the Other Reporting Persons has effected any transactions in the Common Stock or the Class A Common Stock during the past sixty days.

ITEM 6. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER.

SICO has pledged 2,700,000 shares of Class A Common Stock to secure a promissory note issued by SICO to Aid Association for Lutherans (now known as Thrivent Financial for Lutherans) (the "Pledgee") under a loan agreement. As of the date hereof, the outstanding principal amount of the promissory note is $10,000,000. Upon the occurrence of an event of default, the Pledgee has the right to vote or, after notice, to sell the pledged shares of Class A Common Stock to satisfy the obligations of SICO under the promissory note. The Pledgee also has the right, upon the occurrence of and during the continuation of an event of default, to receive dividends on the pledged shares of Class A Common Stock. The loan agreement requires that SICO pledge additional shares, if necessary, to ensure that the value of the pledged securities exceeds 200% of the outstanding principal amount of the promissory note, plus interest thereon for one quarter. The loan agreement includes a negative pledge with respect to 6,000,000 shares of Class A Common Stock (including shares already pledged by SICO). For further information, please see the Loan Agreement, dated August 30, 2001, between Smith Investment Company and Aid Association for Lutherans, a copy of which is attached as Exhibit 3 hereto and is incorporated herein by reference, and the Pledge Agreement, dated August 30, 2001, between Smith Investment Company and Aid Association for Lutherans, a copy of which is attached as Exhibit 4 hereto and is incorporated herein by reference.

Except as described herein, SICO and the Other Reporting Persons do not have any contract, arrangement, understanding or relationship (legal or otherwise) with any person with respect to securities of AOS, including, but not limited to transfer or voting of any such securities, finder's fees, joint ventures, loans or option agreement, puts or call, guarantees of profits, division of profits or losses, or the giving or withholding of proxies.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

1. Proposal Letter from SICO to AOS dated February 2, 2008
2. Press Release issued by SICO on February 4, 2008

3. Loan Agreement, dated August 30, 2001, between SICO and Aid Association for Lutherans
4. Pledge Agreement, dated August 30, 2001, between SICO and Aid Association for Lutherans
5. Joint Filing Agreement, dated February 4, 2008, pursuant to Rule 13d-1(k) of the Securities Exchange Act of 1934, as amended

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: February 4, 2008

SMITH INVESTMENT COMPANY

By: /s/ Bruce M. Smith
Name: Bruce M. Smith
Title: Chairman and CEO

ARTHUR O. SMITH

/s/ Arthur O. Smith

BRUCE M. SMITH

/s/ Bruce M. Smith

EXHIBIT INDEX

1. Proposal Letter from SICO to AOS dated February 2, 2008
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Annex A

Executive Officers and Directors of SICO

Name	Position	Principal Occupation or Employment
Edward E. Barr	Director	Retired, Chief Executive Officer of Sun Chemical Group B.V.
Glen R. Bomberger	Director	Retired, Executive Vice President and Chief Financial Officer of A.O. Smith Corporation
Jere D. McGaffey	Director	Retired, Attorney at Foley & Lardner
Arthur O. Smith*	Director	Retired, Chairman, President and Chief Executive Officer of Smith Investment Company
Arthur O. Smith III	Director	Employee of A.O. Smith Corporation
Harold M. Stratton II	Director	President and Chief Executive Officer of STRATTEC SECURITY CORPORATION
Bruce M. Smith*	Chairman, President and Chief Executive Officer	Chairman, President and Chief Executive Officer of Smith Investment Company
Wesley A. Ulrich	Vice President, Chief Financial Officer, Secretary and Treasurer	Vice President, Chief Financial Officer, Secretary and Treasurer of Smith Investment Company

* Other Reporting Persons

The business address of each person listed above, other than Jere D. McGaffey, Arthur O. Smith, III and Harold M. Stratton, II is 11270 West Park Place, Milwaukee, Wisconsin 53224. Mr. McGaffey's business address is Foley & Lardner, 777 E. Wisconsin Avenue, Milwaukee, Wisconsin 53202. Mr. Arthur O. Smith, III's business address is A. O. Smith Corporation, 531 North 4th Street, Tipp City, Ohio 45373. Mr. Stratton's business address is STRATTEC SECURITY CORPORATION, 3333 West Good Hope Road, Milwaukee, Wisconsin 53217.

[SMITH INVESTMENT COMPANY LETTERHEAD]

Exhibit 1

February 2, 2008

Mr. Paul W. Jones
Chairman of the Board and Chief Executive Officer
A. O. Smith Corporation
11270 West Park Place
Milwaukee, Wisconsin 53224

Dear Paul:

For a number of years, Smith Investment Company, or “Smith Investment”, has been evaluating various alternative transactions by which the shareholders of Smith Investment could realize the underlying value of Smith Investment’s holdings in A. O. Smith Corporation, or “A. O. Smith”, and provide enhanced liquidity to Smith Investment’s shareholders. This letter contains a proposal for a business combination transaction between Smith Investment and A. O. Smith, which is a result of these efforts.

Pursuant to the proposed transaction, Smith Investment would be merged with a newly formed subsidiary of A. O. Smith. In the merger, Smith Investment’s common stock would be exchanged for newly issued shares of A. O. Smith’s class A common stock and common stock. It is intended that this exchange would be non-taxable to the shareholders of Smith Investment. The total number and type of A. O. Smith shares to be issued in the proposed transaction would equal the number and type of A. O. Smith shares currently held by Smith Investment, and there would be no net change to the number of outstanding A. O. Smith shares. Prior to the merger, Smith Investment would distribute in a taxable transaction substantially all of its assets (other than its holdings in A. O. Smith) to Smith Investment’s shareholders. In addition, substantially all of Smith Investment’s pre-closing liabilities would be discharged or assumed by the entity or entities in which Smith Investment’s other assets are held. A more detailed summary of the key terms of the proposal is attached to this letter.

We believe the proposed transaction benefits the shareholders of both companies. The proposed transaction is expected to benefit A. O. Smith’s shareholders by increasing the public float for A. O. Smith shares and distributing the A. O. Smith class A common stock currently held by Smith Investment more broadly among Smith Investment’s shareholders. The proposed

transaction would allow the Smith family to continue its long-standing and strong commitment to the growth and prosperity of A. O. Smith. In addition, Smith Investment's common stock trades at a significant discount to the underlying value of the A. O. Smith shares held by Smith Investment. The proposed transaction would allow Smith Investment's shareholders to realize the underlying value of the A. O. Smith shares held by Smith Investment, and provide enhanced liquidity for Smith Investment's shareholders due to the greater public float and trading volumes for A. O. Smith shares, and its NYSE listing.

Smith Investment's board of directors is mindful of its obligations to all the shareholders of Smith Investment in connection with the proposed transaction. To that end, Smith Investment's board of directors formed a special committee comprised of two independent directors, Messrs. Edward E. Barr and Harold M. Stratton II, to consider possible transactions on behalf of the shareholders of Smith Investment other than certain members of the Smith family and trusts for the benefit of certain members of the Smith family. The special committee has engaged independent financial and legal advisors to assist it in completing its review. Smith Investment's board of directors has agreed that it will not approve any transaction without the prior recommendation of the special committee, and the special committee recommended the making of this proposal.

Before recommending the proposal, the Smith Investment special committee consulted with certain Smith Investment shareholders holding in the aggregate a majority of Smith Investment's common stock. These shareholders separately indicated that they would support the proposed transaction. These shareholders also separately indicated that they would not currently support any alternative transaction that resulted in a sale of Smith Investment or eliminated or limited the dual class voting structure at A. O. Smith.

We would have preferred to discuss this proposal with you on a confidential basis, but have been advised that applicable federal securities laws require its prompt public disclosure. Consistent with these requirements, Smith Investment plans to issue a press release with respect to the proposal before the markets open on February 4, 2008, and to amend its Schedule 13D disclosure with the SEC accordingly. We would be happy to provide a copy of the press release for your review before it is issued. We anticipate that A. O. Smith may also want to issue a press release with respect to the proposal, but would request that A. O. Smith maintain the confidentiality of the proposal until it is otherwise announced publicly.

The proposal is preliminary and subject to, among other things, negotiation of definitive documentation and approval of Smith Investment's special committee and board of directors. The proposal is non-binding and does not create legally binding obligations on the part of Smith Investment or any other person. Any such legally binding obligations will arise only upon the execution of mutually acceptable definitive documentation.

We are enthusiastic about this proposal and are prepared to move expeditiously to execute the potential transaction to our mutual benefit. Thank you again for your consideration of this proposal, as well as the long and productive relationship that Smith Investment continues to enjoy with A. O. Smith.

Sincerely,

/s/ Bruce M. Smith
Bruce M. Smith
Chairman of the Board, President and Chief Executive Officer

/s/ Edward M. Barr
Edward M. Barr
Chairman of the Special Committee of the Board

Summary of Key Terms of Proposal
to
A. O. Smith Corporation

February 2, 2008

We summarize below certain key terms of the proposal made on February 2, 2008 by Smith Investment Company (" **Smith Investment** ") for a transaction between Smith Investment and A. O. Smith Corporation (" **A. O. Smith** ") that would result in Smith Investment's shareholders having direct ownership of the same number and type of A. O. Smith shares currently held by Smith Investment. We refer to the proposed transaction between Smith Investment and A. O. Smith as the " **Transaction** ."

THIS PROPOSAL IS PRELIMINARY AND SUBJECT TO, AMONG OTHER THINGS, NEGOTIATION OF DEFINITIVE DOCUMENTATION AND APPROVAL BY SMITH INVESTMENT'S SPECIAL COMMITTEE AND BOARD OF DIRECTORS. THIS PROPOSAL IS NON-BINDING AND DOES NOT CREATE LEGALLY BINDING OBLIGATIONS ON THE PART OF SMITH INVESTMENT OR ANY OTHER PERSON. ANY SUCH LEGALLY BINDING OBLIGATIONS WILL ARISE ONLY UPON THE EXECUTION OF MUTUALLY ACCEPTABLE DEFINITIVE DOCUMENTATION. SMITH INVESTMENT RESERVES THE RIGHT TO WITHDRAW THIS PROPOSAL AT ANY TIME.

Form of Transaction:

Smith Investment would merge with and into a newly formed limited liability company that is a wholly-owned subsidiary of A. O. Smith (" **NewCo** "). NewCo would be the surviving entity of the merger. The Transaction is expected to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended.

Consideration:

In the merger, the outstanding shares of Common Stock, par value $.10 per share, of Smith Investment (the " **Smith Investment Common Stock** ") would be converted into the right to receive, in the aggregate:

- 8,067,252 shares of Class A Common Stock, par value $5.00 per share, of A. O. Smith (the " **AOS Class A Common Stock** "); and
- 1,559,076 shares of Common Stock, par value $1.00 per share, of A. O. Smith (the " **AOS Common Stock** ").

After completing the Transaction, the AOS Class A Common Stock and AOS Common Stock currently held by Smith Investment would be cancelled, and the Transaction would not result in any net change to the total number and type of outstanding A. O. Smith shares.

Other Smith Investment Assets and Liabilities:	Prior to the merger, Smith Investment would distribute in a taxable transaction substantially all of its assets, other than its holdings in A. O. Smith, to the shareholders of Smith Investment. The Smith Investment assets to be distributed include Smith Investment's multicolor printing and related services businesses, conducted through Berlin Industries, Inc. and Smith Investment's commercial warehousing, trucking and packaging businesses, conducted through Central States Distribution Service, Inc. Smith Investment's pre-closing liabilities would be discharged or otherwise assumed by the entity or entities in which the other Smith Investment assets are to be held.
Amendment to A.O. Smith Certificate of Incorporation:	Smith Investment does not believe that A. O. Smith has sufficient authorized shares to issue the 8,067,252 new shares of AOS Class A Common Stock required in the Transaction. Therefore, in order to facilitate the Transaction, A. O. Smith would be required to amend its certificate of incorporation to increase the number of authorized shares of AOS Class A Common Stock. Following the merger, however, the excess authorized shares would be cancelled and the authorized shares available for issuance would not exceed those currently available.
Required Approvals:	The Transaction is subject to the approval of Smith Investment's special committee and board of directors. In addition, the completion of the Transaction would be conditioned upon separate approvals from the shareholders of Smith Investment and A. O. Smith (as to the above-mentioned amendment to the certificate of incorporation and, per NYSE rules, the contemplated issuance of shares). Smith Investment anticipates that it would vote its shares in favor of the Transaction at any A. O. Smith shareholder meeting called for that purpose and, therefore, the approval of the A. O. Smith shareholders would be assured. Smith Investment does not anticipate that any regulatory approvals or material third party consents would be required to complete the Transaction.
SEC Filings :	It is our understanding that A. O. Smith would be required to (1) register the AOS Class A Common and AOS Common Stock to be issued in the Transaction under cover of a Registration Statement on Form S-4, and (2) file and distribute a proxy statement under cover of Schedule 14A with respect to its shareholder meeting for the Transaction. Smith Investment is not an SEC registrant and is not required to comply with the federal proxy rules with respect to its shareholder

meeting for the Transaction. Nevertheless, Smith Investment anticipates that the proxy statement/prospectus prepared by A. O. Smith in connection with the Transaction would include information with respect to the Smith Investment shareholder meeting.

Conditions to Closing: Completion of the Transaction would be subject to the satisfaction of customary closing conditions set forth in the definitive documentation, including:

- The Registration Statement on Form S-4 covering the issuance of the AOS Class A Common Stock and AOS Common Stock in the Transaction shall have been declared effective;
- The Transaction shall have been approved by the requisite votes of the shareholders of Smith Investment and A. O. Smith, respectively; and
- Smith Investment shall have received a private letter ruling issued by the Internal Revenue Service, satisfactory to Smith Investment, confirming that the Transaction will qualify as a "reorganization" within the meaning of Section 368 (a) of the Internal Revenue Code.

Documentation : The Transaction would be completed pursuant to a merger agreement and related documentation, in form and substance mutually acceptable. The documentation would contain representations, warranties, covenants, indemnities and other customary terms and conditions, including the availability of dissenter's rights required under Nevada law for SICO shareholders. Smith Investment would expect to provide drafts of the merger agreement and related documentation promptly upon request.

Expenses : Each party would bear its own fees and expenses incurred in connection with the Transaction.

Due Diligence : Smith Investment will provide to A. O. Smith and its representatives full access to its personnel, books and records to conduct a due diligence investigation of Smith Investment.

Contact Information : Any questions related to the proposal should be directed to Bruce Smith or Ed Barr. The contact information for Messrs. Smith and Barr, as well as Smith Investment's legal advisors and the independent legal and financial advisors to the special committee, will be provided to you under separate cover.

* * *

Exhibit 2

[Smith Investment Company Letterhead]

For Release: **IMMEDIATE**
February 4, 2008

Contact: Wesley A. Ulrich
Vice President & CFO
Smith Investment Company
P.O. Box 245011
Milwaukee, WI 53224-9511
(414) 359-4030

Smith Investment Company proposes restructuring of holdings in A. O. Smith Corporation

Milwaukee, Wis. — Smith Investment Company (SMIC - PK) announced today that it has made a proposal to restructure its holdings in A. O. Smith Corporation (AOS - NYSE). The proposed transaction would result in the shareholders of Smith Investment having direct ownership of the same number and type of A. O. Smith shares currently held by Smith Investment. Smith Investment's common stock has been valued at a significant discount to the underlying value of the A. O. Smith shares held by Smith Investment. The proposed transaction is intended to allow Smith Investment's shareholders to realize the underlying value of Smith Investment's holdings in A. O. Smith, and provide enhanced liquidity to Smith Investment's shareholders.

Pursuant to the proposed transaction, Smith Investment would be merged with a newly formed subsidiary of A. O. Smith. In the merger, Smith Investment's common stock would be exchanged for newly issued shares of A. O. Smith's class A common stock and common stock. It is intended that this exchange would be non-taxable to the shareholders of Smith Investment. Because the total number and type of A. O. Smith shares issued in the proposed transaction would equal the number and type of A. O. Smith shares currently held by Smith Investment, there would be no net change to the number of outstanding A. O. Smith shares. Prior to the merger, Smith Investment intends to distribute in a taxable transaction substantially all of its assets (other than its holdings in A. O. Smith) to the shareholders of Smith Investment. The proposal also contemplates that, prior to the merger, substantially all of Smith Investment's pre-closing liabilities would be discharged or assumed by the entity or entities in which Smith Investment's distributed assets are held.

A special committee comprised of two independent directors from Smith Investment's board of directors recommended the making of the proposal. The Smith Investment special committee was formed to consider possible transactions on behalf of the shareholders of Smith Investment other than certain members of the Smith family and trusts for the benefit of certain members of the Smith family. The Smith Investment special committee has engaged independent financial and legal advisors to assist it in completing its review. Smith Investment's board of directors has agreed that it will not approve any transaction without the prior recommendation of the Smith Investment special committee.

Before recommending the proposal, the Smith Investment special committee consulted with certain Smith Investment shareholders holding in the aggregate a majority of Smith Investment's common stock. These shareholders separately indicated to the Smith Investment special committee that they would support a transaction on substantially the terms proposed. These shareholders also separately indicated to the Smith Investment special committee that they would not support any alternative transaction that resulted in a sale of Smith Investment or otherwise eliminated or limited the dual class voting structure at A. O. Smith.

Smith Investment indicated that the proposal is preliminary, and remains subject to negotiation of definitive documentation and approval of the Smith Investment special committee and board of directors. The proposal also requires the approval of the A. O. Smith board of directors. A. O. Smith has not yet had an opportunity to respond to the proposal. There can be no assurance that the proposed transaction or any other transaction will result from the proposal. Except if required by applicable law, Smith Investment does not intend to comment further on the proposal unless and until a definitive agreement with respect to a proposed transaction has been reached.

About Smith Investment Company

Smith Investment is a diversified company with headquarters in Milwaukee, Wisconsin. Its product lines include multicolor printing and related services and commercial warehousing, trucking and packaging. The company also owns a control position in A. O. Smith Corporation (AOS - NYSE).

Forward looking statements in this press release including, without limitation, statements relating to Smith Investment's plans, strategies, objectives, expectations and intentions, are subject to known and unknown risks, uncertainties and other factors that may cause actual events, results, performance or achievements to be materially different from any future events, results, performance or achievements expressed or implied by such forward-looking statements. These factors include, among others, the following: the outcome of the proposal made to A. O. Smith, including whether the proposed transaction or any other transaction may result from the proposal; any failure to realize the anticipated benefits of the proposed transaction, if completed; the ability to satisfy the conditions to the proposed transaction or any other transaction that may result from the proposal; the impact of the proposed transaction or any other transaction on Smith Investment's multicolor printing and related services businesses and its commercial warehousing, trucking and packaging businesses; and the possibility of adverse publicity or litigation and the outcome thereof and the costs and expenses associated therewith.

Important Information

This release could be deemed to constitute the first public announcement of a business combination transaction contemplated by Smith Investment's proposal to A. O. Smith. If a business combination transaction ultimately is agreed to between Smith Investment and A. O. Smith, Smith Investment anticipates that A. O. Smith would file a registration statement on Form S-4 with the Securities and Exchange Commission (the "SEC") with respect to the shares of A. O. Smith stock to be issued to Smith Investment's shareholders in the business

combination transaction. SHAREHOLDERS OF SMITH INVESTMENT ARE URGED TO READ THE FORM S-4 WHEN IT BECOMES AVAILABLE, BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION. Shareholders of Smith Investment will be able to obtain a free copy of the Form S-4, as well as other filings containing information about A. O. Smith, without charge, at the SEC's website (http://www.sec.gov). Copies of the Form S-4 and such other filings, once they are filed with the SEC, will also be available, without charge, by directing a request to the Office of the Corporate Secretary, Smith Investment Company, 11270 West Park Place, P.O. Box 245011, Milwaukee, Wisconsin 53224, (414) 359-4030.

This release does not constitute a solicitation of a proxy, an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

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Exhibit 3

SMITH INVESTMENT COMPANY
P.O. Box 245011
Milwaukee, Wisconsin 53224-9511

August 30, 2001

Aid Association for Lutherans
4321 North Ballard Road
Appleton, Wisconsin 54919
Attention: Investment Department

Gentlemen:

The undersigned, Smith Investment Company, a Nevada corporation (herein called the "Company"), agrees with you as follows:

1. Authorization of Issue of Note . The Company will authorize the issue of its promissory note (herein, together with any notes which may be issued hereunder in substitution therefor, called the "Note" or "Notes") in the aggregate principal amount of TWENTY MILLION and No/100 DOLLARS ($20,000,000.00) to be dated the Closing Date as hereinafter defined, to mature July 30, 2013, to bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall become due and payable at the rate of 7.46% per annum, payable quarterly, and to be substantially in the form of Exhibit A hereto attached.

2. Sale and Purchase of Note . The Company hereby agrees to sell to you, and subject to the terms and conditions herein set forth, you agree to purchase from the Company, a Note in the aggregate principal amount of TWENTY MILLION and No/100 DOLLARS ($20,000,000.00) at 100% of such principal amount. The closing of such sale and purchase (herein referred to as the "Closing") shall take place at the offices of Whyte Hirschboeck Dudek S.C., 111 East Wisconsin Avenue, Suite 2100, Milwaukee, Wisconsin on August 30, 2001, or at such other time and place as may be agreed to by you and the Company (herein referred to as the "Closing Date"). At the Closing the Company will deliver to you the Note, payable to you or your order, against payment of the purchase price thereof in federal or other immediately available funds in New York, New York. If at the Closing the conditions precedent thereto shall not have been satisfied, you shall, at your option, be relieved of all further obligations hereunder.

3. Conditions . Your obligation to purchase and pay for the Note is subject to the satisfaction on or before the Closing Date of the following conditions:

3A. Pledge Agreement . The Pledge Agreement in the form of Exhibit B hereto attached (the "Pledge Agreement") shall have been duly authorized, executed and delivered by the Company, no default shall exist thereunder, you shall have received a fully executed copy thereof, and you or your agent shall have received A.O. Smith Corporation stock as provided in paragraph 9 hereof.

3B. Opinion of Special Counsel . You shall have received on the Closing Date from Whyte Hirschboeck Dudek S.C., who are acting as special counsel for you in connection with this transaction, a favorable opinion satisfactory to you as to:

(i) the due organization, existence and good standing of the Company under the laws of the State of Nevada;

(ii) the due authorization (including any consent of stockholders required by law, by the charter or by-laws of the Company or otherwise), execution and delivery and the validity and enforceability of this Agreement and the Note, and the due authorization (including any consent of stockholders required by law, by the charter or by-laws of the Company or otherwise), execution and delivery and the validity and enforceability (assuming delivery of the stock described therein) of the Pledge Agreement;

(iii) the exemption of the issuance and delivery of the Note from the registration provisions of the Securities Act of 1933, as amended; and

(iv) such other matters incident to the matters herein contemplated as you may reasonably request, including the form of all papers and the validity of all proceedings.

3C. Opinion of Company Counsel . You shall have received on the Closing Date from Messrs. Foley & Lardner, counsel for the Company, a favorable opinion satisfactory to you and your special counsel as to the matters specified in paragraph 3B and to the effect:

(i) that each Subsidiary of the Company is duly organized and in good standing under the laws of its state or jurisdiction of incorporation;

(ii) that the Company and each Subsidiary has the corporate power to carry on its business as now being conducted;

(iii) that, in connection with the issuance and delivery of the Note under the circumstances contemplated by this Agreement, it is exempt from the necessity of qualifying an indenture with respect to the Note under the Trust Indenture Act of 1939, as amended;

(iv) that there is no action, suit or proceeding pending or, to the best of their knowledge, threatened against or affecting the Company or any Subsidiary before or by any court, governmental authority or arbitrator which, if adversely decided, might result, either individually or collectively, in any material adverse change in the business, properties, operations or condition, financial or otherwise, of the Company or the applicable Subsidiary;

(v) that neither the authorization, execution and delivery of this Agreement, the Note, and the Pledge Agreement nor the consummation of the transactions therein contemplated, nor the fulfillment or compliance with the terms thereof will conflict with or result in a breach of any terms of the articles, by-laws or any other corporate restriction or of any statute, law, rule or regulation, or of any judgment, decree, writ, injunction, order or award of any arbitrator, court or governmental authority or of any instrument of which they have knowledge, which is applicable to the Company or any Subsidiary or by which the Company or any Subsidiary is bound, or constitute a default thereunder;

(vi) that neither the Company nor any Subsidiary is (a) a “public utility company” or a “holding company,” or an “affiliate” or a “subsidiary company” of a “holding company,” as such terms are defined in the Public Utility Holding Company Act of 1935, as amended, or (b) a “public utility” as defined in the Federal Power Act, as amended, or (c) an “investment company” or an “affiliated person” thereof or an “affiliated person” of any such “affiliated person” as such terms are defined in the Investment Company Act of 1940, as amended;

(vii) that the Company is the record owner of all of the stock of A.O. Smith Corporation, a Delaware corporation (“A.O. Smith Corporation”), described in Exhibit D ;

(viii) that upon delivery of the stock described in the Pledge Agreement, the Pledge Agreement will create a first lien security interest in your favor in all right, title and interest of the Company in and to such stock; and

(ix) that, with respect to you and the Company, the issuance of the Note and the use by the Company of the proceeds therefrom does not violate or conflict with Section 7 of the Securities Exchange Act of 1934, as amended, or Regulations G, T, U or X of the Board of Governors of the Federal Reserve System (12 CFR Parts 207, 220, 221 and 224, respectively).

3D. Additional Financial Information . If not previously furnished, the Company shall furnish you with the same financial statements as are set forth in paragraph 7A(i), as at June 30, 2001. The same representations and warranties applicable to the financial statements referred to in paragraph 5B shall be applicable to the financial statements furnished pursuant to this paragraph 3D.

3E. Officer’s Certificate . The representations and warranties of the Company contained in paragraph 5 shall be true as of the Closing Date, except to the extent of changes caused by the transaction herein contemplated and dividends paid consistent with the provisions hereof; there shall exist on such date no Event of Default or Default; and the Company shall deliver to you an Officer’s Certificate dated the Closing Date to both such effects.

3F. Tax Certificate . The Company shall have delivered to you a certificate of the principal financial officer of the Company stating that such person has reviewed the federal income tax returns of the Company for the fiscal years ended December 31, 1994 through December 31, 2000, inclusive, and in the opinion of such person the Company has paid, or made adequate provision for the payment of, all federal income taxes for said fiscal years.

3G. Proceedings and Documents . All corporate and other proceedings in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to you and your special counsel, and you and your special counsel shall have received all such counterpart originals or certified or other copies of such documents as you or they may request.

4. Prepayments . The Note shall be subject to prepayment with respect to the required prepayments specified in paragraph 4A and also under one or more of the circumstances set forth in the succeeding paragraphs.

4A. Mandatory Prepayments . On July 30, 2004 and on July 30 of each succeeding year, the Company shall apply to the prepayment of the Note, without premium, $2,000,000 and such principal amount of the Note, together with interest thereon to the prepayment dates, shall become due and payable on such prepayment dates. The remaining principal amount of the Note, together with interest thereon, shall become due and payable on July 30, 2013. The Company's exercise of any prepayment option contained in this Agreement shall not reduce or otherwise affect its obligation to make any prepayment required by this paragraph 4A.

4B. Optional Prepayments on Mandatory Prepayment Dates . The Note may be prepaid without premium, at the Company's option, on any date on which a prepayment is required by paragraph 4A in multiples of $200,000, provided that the optional prepayments permitted by this paragraph 4B shall not, in the aggregate, exceed $2,000,000 and shall be applied to the amounts due under the Note in the inverse order of their maturity.

4C. Optional Prepayment in Whole without Premium . The Note may be prepaid without premium under the circumstances and as provided in paragraph 9E.

4D. Optional Prepayment in Whole with Premium . Except for the mandatory prepayments and the optional prepayments provided in paragraphs 4A, 4B and 4C respectively, the Note shall not be subject to prepayment, except that the Note may be prepaid at the Company's option, in whole (but not in part) at any time (but upon notice as provided in paragraph 4E), such prepayment to be equal to the unpaid principal amount of the Note, plus accrued interest, and plus a Special Premium, which Special Premium shall be determined by calculating the present value of all remaining payments of interest and principal using a rate of interest equal to the Applicable Treasury Rate and deducting therefrom the outstanding principal balance of the Notes (provided that no Special Premium shall be payable if such is less than or equal to zero). The Applicable Treasury Rate shall mean the yield on the U.S. Treasury Note whose maturity most closely coincides with the remaining average life of the Notes plus 50 basis points; provided, however, in the event the Company seeks to prepay the Note in connection with the sale or other disposal of eighty percent (80%) or more of the shares of A.O. Smith Corporation owned by it and provides you with a certified copy of a contemporaneous resolution of the Board of Directors to that effect, the Special Premium shall be determined based on an Applicable Treasury Rate equal to the yield on the U.S. Treasury Note whose maturity most closely coincides with the remaining average life of the Notes plus 100 basis points.

4E. Notice of Prepayment . The Company shall give you written notice of each prepayment, other than prepayments pursuant to paragraphs 4A and 4C, not less than 30 days prior to the prepayment date, setting forth the principal amount to be prepaid on such date and the paragraph pursuant to which such prepayment is being made, whereupon the principal amount specified in such notice together with the interest thereon to the prepayment date, shall become due and payable on the prepayment date.

5. Representations and Warranties . The Company represents and warrants that:

5A. Organization of the Company and Subsidiaries . The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Nevada. It has only those Subsidiaries set forth on Exhibit C . The Subsidiaries are corporations duly organized, validly existing and in good standing under the laws of the states set forth on Exhibit C . All of the other information set forth on said Exhibit C is true and correct. The execution, delivery and performance by the Company of this Agreement, the Note and the Pledge Agreement herein provided for are within its corporate authority and have been duly authorized by proper corporate proceedings and will not contravene any provision of law or regulation, or of the Company's charter or by-laws or of any agreement, judgment or order binding on it. This Agreement constitutes, and the Note and Pledge Agreement, when executed and delivered by the Company will constitute, valid and binding obligations of the Company enforceable in accordance with their respective terms.

5B. Financial Statements; Fiscal Year . The Company has furnished you with the following audited financial statements of the Company and its Subsidiaries: statement of operations and retained earnings and statement of changes in financial position or cash flows for the years ended December 31, 1998 through 2000, and balance sheets at December 31, 1998 through 2000, all audited by Ernst & Young LLP, together with the unqualified opinion of such accountants to the effect that such statements fairly present the financial condition and the results of operations of the Company and its Subsidiaries for the periods and as of the relevant dates thereof, in accordance with generally accepted accounting principles (except as provided in paragraph 11P hereof). Such financial statements are true and correct and have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved (except as provided in paragraph 11P hereof). The balance sheets fairly present the financial condition of the Company and its Subsidiaries as at the dates thereof, and the statement of operations and retained earnings and the statement of changes in financial position or cash flows fairly present the results of the operations and changes in financial position or cash flows of the Company and its Subsidiaries for the periods indicated. There has been no material adverse change in the condition, financial or otherwise, of the Company and its Subsidiaries, taken as a whole, and no dividends have been authorized or paid, since December 31, 2000 except a dividend of 20¢ per share payable March 1, 2001, a dividend of 20¢ per share payable June 1, 2001, and a dividend of 20¢ per share payable September 4, 2001 . The fiscal years of the Company and its Subsidiaries end December 31.

5C. Intentionally deleted.

5D. Intentionally deleted.

5E. Actions Pending; Compliance with Law . There is no action or proceeding pending or, to the knowledge of the Company, threatened against the Company or any Subsidiary before any court or governmental or administrative authority which might result in any material adverse change in the business or condition of the Company or such Subsidiary, and to the best knowledge of the Company, the Company and its Subsidiaries have complied with all applicable laws and requirements of governmental and administrative authorities, the noncompliance with which would have a material adverse effect on the condition, financial or otherwise, of the Company and such Subsidiaries, taken as a whole.

5F. Outstanding Debt . The Company and its Subsidiaries have no outstanding Debt, except as permitted by paragraph 6D. There exists no material default under the provisions of any instrument evidencing any indebtedness or any agreement relating thereto.

5G. Qualification; Corporate Authority; Title to Property and A.O. Smith Corporation Stock . The Company and each of its Subsidiaries has duly qualified and is authorized to do business and is in good standing as a foreign corporation in each jurisdiction where property owned by it or the nature of its activities makes such qualification necessary and where the failure to be so qualified would have a material, adverse effect upon their business, financial or otherwise, taken as a whole. The Company and each of its Subsidiaries has all requisite power and authority and all necessary trademarks, tradenames, copyrights, patents, licenses and permits to carry on its business as now conducted, and has good and marketable title to its properties and assets, including the properties and assets reflected in the financial statements described in paragraph 5B and those shares of A.O. Smith Corporation stock as set forth on Exhibit D , subject to no material liens or encumbrances excepting only that certain properties and assets (other than those shares of A.O. Smith Corporation stock as set forth on Exhibit D) may be subject to liens and encumbrances securing Current and Funded Debt. The Company and each of its Subsidiaries enjoys peaceful and undisturbed possession under all leases necessary in any material respect for the operation of its properties and assets, none of which contains any unusual or burdensome provisions which might materially affect or impair the operation of such properties and assets. All such leases are valid and subsisting and are in full force and effect.

5H. Taxes . The Company and its Subsidiaries have filed all federal and state income tax returns which, to the knowledge of the officers of the Company, are required to be filed, and have paid all taxes as shown on said returns and on all assessments received by them to the extent that such taxes have become due. There is no unpaid assessment for Federal income tax liability of the Company or any Subsidiary for any period, and the Company knows of no basis for any claim for such liability. The Company believes that the provisions in the accounts of the Company and its Subsidiaries for any additional income tax liability are adequate. The United States income tax liabilities of the Company have been finally determined by the Internal Revenue Service and satisfied for all taxable years up to and including the taxable year ended December 31, 1991.

5I. Conflicting Agreements and Charter Provisions . Neither the Company nor any of its Subsidiaries is a party to any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects its business, property or assets, or financial condition. Neither the execution and delivery of this Agreement, the Note or the Pledge Agreement, nor fulfillment of nor compliance with the terms and provisions hereof and of the Note and of the Pledge Agreement will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in the creation of any lien upon any of the properties or assets of the Company or any Subsidiary pursuant to, the charter or by-laws of the Company or any Subsidiary, any award of any arbitrator or any agreement (including any agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company or any Subsidiary is subject. Except as set forth on Exhibit E , neither the Company nor any Subsidiary is a party to, or otherwise subject to any provisions contained in, any instrument evidencing indebtedness of the Company or such Subsidiary, any agreement relating thereto or any other contract or agreement (including its charter) which restricts or otherwise limits the incurring of Funded Debt by the Company of the kind to be evidenced by the Note.

5J. Governmental Consent . Neither the nature of the Company or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offer, issue, sale or delivery of the Note is such as to require the Company or any Subsidiary to obtain any consent or approval or take any other action or give any notice to or make any filing with any court or administrative or governmental body (other than routine filings after the date of closing with the Securities and Exchange Commission and/or State Blue Sky authorities) in connection with the execution and delivery of this Agreement, the offer, issue, sale or delivery of the Note or fulfillment of or compliance with the terms and provisions hereof or of the Note.

5K. Federal Reserve Regulations . The Company does own a “margin security,” as defined in Regulation U of the Board of Governors of the Federal Reserve System (12 CFR Part 221); provided, however, the Company will not use any proceeds from the sale of the Notes to purchase or carry any “security,” as defined in Section 3(a)(l0) of the Securities Exchange Act of 1934, if such transaction would constitute a “purpose credit” within the meaning of said Regulation U, or for any other purpose which would cause any transaction contemplated by this Agreement to constitute a “purpose credit” within the meaning of said Regulation U, or which would involve a violation of Section 7 of the Securities Exchange Act of 1934, or Regulation T, U, or X of said Board of Governors (12 CFR Parts 220, 221 and 224, respectively).

5L. Offering of Notes . Neither the Company nor any agent acting on its behalf has offered the Note or any similar obligation of the Company for sale to, or solicited any offers to buy the Note or any similar obligations of the Company from, any Person which would subject the issuance of the Note to the provisions of Section 5 of the Federal Securities Act of 1933, as amended, and neither the Company nor any agent acting on its behalf will take any action which would subject the issuance or sale of the Note to the provisions of Section 5 of the Federal Securities Act of 1933, as amended, or to the comparable provisions of any securities or Blue Sky law of any applicable jurisdiction.

5M. Laws and Regulations . The Company is and each Subsidiary is in substantial compliance with all laws and regulations, including, without limitation, laws and regulations relating to pollution and environmental control, persons with disabilities, equal employment opportunity and employee safety, in all jurisdictions in which it is presently doing business, where the failure to be in compliance would, in the aggregate, materially and adversely affect the business, condition or operations (financial or otherwise) of the Company and the Subsidiaries taken as a whole. The Company will use its best efforts to comply substantially and to cause each Subsidiary to comply substantially with all such laws and regulations which may be legally imposed in the future in jurisdictions in which the Company or such Subsidiary may then be doing business.

5N. ERISA . The Company is not deficient as to any minimum funding requirements under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) with respect to any employee benefit plan (within the meaning of ERISA Section 3(3)) established or maintained by the Company. The Company has not incurred any liability to the Pension Benefit

Guaranty Corporation ("PBGC"), or to any trustee appointed pursuant to ERISA Sections 4042 or 4049, with respect to any such employee benefit plan, and the PBGC has not instituted proceedings to terminate any such employee benefit plan or to have a trustee appointed under ERISA Section 4042 to administer or terminate any such employee benefit plan. The Company has not engaged in any "prohibited transaction," as such term is defined in ERISA Section 406 and Section 4975 of the Internal Revenue Code, which may result in any civil penalty assessed pursuant to ERISA Section 502(i) or a tax imposed by the Internal Revenue Code. The Company maintains no unfunded employee welfare benefit plans (within the meaning of ERISA Section 3(1)) for former employees of the Company which cannot be terminated without further obligation on the part of the Company within not more than thirty (30) days excepting a deferred compensation plan for senior executives, a supplemental pension plan for three former employees of the Company, and a plan providing certain supplemental medical benefits to Medicare for approximately 30 former employees, the anticipated liabilities for all of which plans are reflected on the financial statements of the Company. The term "Company" as used herein includes all corporations which are members of a controlled group of corporations within the meaning of I.R.C. Section 1563(a).

5O. Intentionally deleted.

5P. Undisclosed Statements . Neither this Agreement, nor any document, certificate or statement referred to herein contains any untrue statement of a material fact or omits to state a material fact necessary to be stated in order to make the statements contained herein and therein not misleading. There is no fact not generally known to the business or financial community which the Company has not disclosed to you in writing which materially affects adversely or, so far as the Company can reasonably now foresee, will materially affect adversely the properties, business, prospects, profits or condition (financial or otherwise) of the Company and its Subsidiaries, taken as a whole, or the ability of the Company to perform this Agreement.

5Q. Use of Proceeds . The proceeds of the sale of the Note will be used by the Company to pay in full, without premium or penalty, all amounts due on the 6.95% Notes heretofore sold to you and scheduled to mature no later than June 30, 2003, to pay amounts due on the Company's commercial paper indebtedness, and the balance, if any, for general corporate purposes, and will not be used for any purpose prohibited by law.

6. Negative Covenants . The Company agrees that, so long as any of the Note or Notes shall be outstanding:

6A. Dividends and Other Restricted Payments . The Company will not at any time after the date hereof pay or declare any dividend on any class of its stock or make any other distribution on account of any class of its stock or purchase or otherwise acquire, directly or indirectly, any shares of stock of A.O. Smith Corporation (all of the foregoing being herein called "Restricted Payments") except out of Consolidated Net Income Available for Restricted Payments. "Consolidated Net Income Available for Restricted Payments" shall mean an amount equal to $10,000,000 plus 75% of "Adjusted Net Income" for the period (taken as one accounting period) commencing on January 1, 2001, and terminating at the end of the last fiscal quarter preceding the date of any proposed Restricted Payment less the sum of the aggregate amount of all Restricted Payments made by the Company on or after January 1, 2001. "Adjusted

Net Income" shall mean the Consolidated Net Income of the Company reduced by its equity in the net income (or increased by its equity in any net loss) of A.O. Smith Corporation, and increased by all dividends received from A.O. Smith Corporation, all to the extent reflected on the financial statements delivered to you pursuant to paragraphs 7A(i) and (ii) hereof There shall not be included in any computation of Restricted Payments or of Consolidated Net Income Available for Restricted Payments: (i) dividends payable in stock of the Company, and (ii) exchange of stock of one or more classes of the Company for other stock of the Company, except to the extent that cash or other property is involved in such exchange. Notwithstanding the limitations of this paragraph 6A, the Company may with your prior written consent (which consent will not be unreasonably withheld) pay dividends on its common stock in excess of the permitted amount of Restricted Payments to the extent, but only to the extent necessary to avoid incurring a personal holding company tax liability (hereinafter an "Excess Restricted Payment"). In the event the Company proposes to make an Excess Restricted Payment, it shall furnish to you a report showing the calculation of the potential personal holding company tax liability and amount of dividend necessary to avoid such liability. You shall have ten business days after receipt of such report within which to object to the proposed Excess Restricted Payment. Excess Restricted Payments and payments made pursuant to paragraph 6B shall be included in the computation of Restricted Payments or of Consolidated Net Income Available for Restricted Payments.

6B. Redemption or Purchase of Common Stock . The Company shall not redeem, purchase or otherwise acquire, directly or indirectly, any shares of any class of its stock except for cash purchases or redemptions of its common stock from time to time for an aggregate amount not exceeding $200,000. Any such cash purchase or redemption shall be deemed a Restricted Payment and shall be subject to the limitations set forth in paragraph 6A hereof.

6C. Restriction on A. O. Smith Corporation Stock . The Company will not at any time after the date hereof sell, transfer, assign, pledge or otherwise encumber, or agree to sell, transfer, assign, pledge or otherwise encumber, any of the shares of stock of A.O. Smith Corporation listed on Exhibit D , or any stock dividends, stock splits or the substantial equivalent thereof thereon, and all such shares and all stock dividends, stock splits or the substantial equivalent thereof shall be kept free and clear of all liens and encumbrances (other than the Pledge Agreement).

6D. Debt Restriction . The Company will not and will not permit any Subsidiary to create, incur, assume or suffer to exist at any time Funded Debt and Current Debt aggregating, on a consolidated basis, in excess of the sum of (i) 100% of the current market value (as of the date of computation of the aggregate of all such Debt) of the A.O. Smith Corporation stock then owned by the Company (including any Pledged Stock subject, at the time of such computation, to the Pledge Agreement) plus (or minus) (ii) 25% of the Consolidated Tangible Net Worth of the Company (or 100% of any negative Consolidated Tangible Net Worth of the Company) in each instance as of the last day of the preceding calendar quarter, and in each instance (when computing Consolidated Tangible Net Worth) after deducting its investment in A.O. Smith Corporation. Market value of A.O. Smith Corporation stock shall be determined as of the day preceding the day on which such computation is made in the same manner set forth in paragraph 9B hereof for determination of the market value of any Pledged Stock (as defined below).

6E. Merger, Consolidation or Sale of Assets . The Company will not, and will not permit any Subsidiary to merge or consolidate with any other corporation or to sell, transfer or assign all or substantially all of its assets to another corporation or Person without, in each instance, your prior written consent, which consent shall not be unreasonably withheld, except that (i) any such Subsidiary may merge or consolidate with or sell, transfer or assign its assets to the Company (provided that the Company shall be the continuing or surviving corporation), and (ii) the Company may merge with any other corporation, provided that (a) the Company shall be the continuing or surviving corporation, and (b) the Company shall not, immediately after such merger, be in default under any of its obligations under this Agreement, the Notes or the Pledge Agreement.

6F. Compliance With Law . Neither the Company nor any of its Subsidiaries will be in violation of any laws, ordinances, governmental rules or regulations to which it is subject including, without limitation, those relating to the environment or the removal and disposition of hazardous or toxic material, or similar types of deposits, which violations would in the aggregate materially adversely affect the business, profits, properties, assets or financial condition of the Company and its Subsidiaries on a consolidated basis, unless it is contesting in good faith the validity, application or substance of any such law, ordinance, governmental rule or regulation (the good faith and appropriateness thereof to be the subject of an opinion of independent counsel for the Company or the applicable Subsidiary, which opinion will be furnished you upon your request).

6G. Employee Retirement Income Security Act of 1974 . Neither the Company nor any of its Subsidiaries will permit the existence of any Reportable Event (as defined in Title IV of ERISA) to continue for more than thirty days after you determine in good faith that such Event constitutes grounds for the termination of any Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan (unless the existence of such Event or such consequences thereof are being contested, in good faith, by the Company), nor permit any Plan to be involuntarily terminated within the meaning of Title IV of ERISA, or any trustee to be appointed by the appropriate United States District Court to administer any Plan, nor permit the Pension Benefit Guaranty Corporation to institute proceedings to terminate any Plan or to appoint a trustee to administer any Plan. For purposes of this Agreement, “Plan” means any employee pension benefit plan subject to Title IV of ERISA maintained by the Company or any of its Subsidiaries, or any such plan to which the Company or of its Subsidiaries is required to contribute on behalf of its employees.

6H. Voting A.O. Smith Stock . In connection with any A.O. Smith Corporation Class A Common Stock and Common Stock owned or hereafter acquired by the Company, including without limitation, all of the stock set forth on Exhibit D hereof, the Company shall not vote for, and shall not give any consent, waiver or ratification which would result in an amendment, modification or waiver of any of the provisions of the Certificate of Incorporation of A.O. Smith Corporation affecting or relating to the convertibility of any Class A Common Stock into Common Stock, or which would otherwise affect or relate to the convertibility of any Class A Common Stock into Common Stock, and shall affirmatively vote against the same.

7. Affirmative Covenants . The Company agrees that, until the Note or Notes have been paid in full in accordance with the terms hereof:

7A. Financial Statements . The Company will deliver to you so long as you shall hold any Note and to any requesting holder or holders of 10% or more in aggregate unpaid principal amount of the Notes then outstanding in duplicate:

(i) as soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last) in each fiscal year a consolidated statement of earnings, a consolidated statement of earnings retained in the business and a consolidated statement of cash flows of the Company for the periods from the beginning of the current fiscal year and from the beginning of such quarterly period to the end of such quarterly period, and a consolidated balance sheet of the Company as at the end of such quarterly period, setting forth in each case in comparative form corresponding figures for the corresponding periods in the preceding fiscal year, all in reasonable detail and certified by an authorized financial officer of the Company, subject to changes resulting from year-end adjustments;

(ii) as soon as practicable and in any event within 120 days after the end of each fiscal year, a consolidated statement of earnings, a consolidated statement of earnings retained in the business and a consolidated statement of cash flows of the Company for such year, and a consolidated balance sheet of the Company as of the end of such year, setting forth in each case in comparative form corresponding figures for the preceding fiscal year, all in reasonable detail and satisfactory in scope to you and audited by independent certified public accountants of nationally recognized standing selected by the Company, whose opinion shall be in scope and substance satisfactory to you and who shall have authorized the Company to deliver such financial statements and opinion to you pursuant to this Agreement;

(iii) as soon as possible, copies of all such financial statements, reports and returns as it shall send to its stockholders and of all regular or periodic reports which it is or may be required to file with the Securities and Exchange Commission or any governmental department, bureau, commission or agency succeeding to the functions of the Securities and Exchange Commission; and

(iv) with reasonable promptness, such other data, including copies of any detailed reports submitted to the Company by independent accountants in connection with each annual or interim audit of the books of the Company and its Subsidiaries made by such accountants, as you may reasonably request from time to time relating to the covenants, terms and provisions of this Agreement and whether the same have been complied with by the Company and its Subsidiaries.

All financial statements specified in clauses (i) and (ii) above shall be furnished in consolidated form (and the financial statements specified in clause (ii) above shall also be furnished in consolidating form), for the Company and all consolidated subsidiaries which the Company may at the time have. Together with each delivery of financial statements required by clauses (i) and (ii) above, the Company will deliver to you an Officer’s Certificate stating that there exists no

Event of Default or Default, or if any such Event of Default or Default exists, specifying the nature thereof, the period of existence thereof and what action the Company proposes to take with respect thereto. The Company also covenants that forthwith upon any officer of the Company obtaining knowledge of any Event of Default or Default under this Agreement, it will deliver to you an Officer's Certificate specifying the nature thereof, the period of existence thereof and what action the Company proposes to take with respect thereto. You are hereby authorized to deliver a copy of any financial statement delivered to you pursuant to this paragraph 7A to any regulatory body having jurisdiction over you.

7B. A.O. Smith Information . The Company shall deliver to you as soon as possible copies of all financial statements, notices, reports and other information or documentation which A.O. Smith Corporation shall send to its stockholders and of all regular or periodic reports which it is or may be required to file with the Securities and Exchange Commission or any successor agency. In the event that A.O. Smith Corporation shall fail or cease to file reports with the Securities and Exchange Commission, you shall be furnished financial statements for A.O. Smith Corporation substantially similar to those required from the Company by clauses (i) and (ii) of paragraph 7A within the time periods specified therein.

7C. Inspection of Property . The Company will permit any person designated in writing by you so long as you shall hold any Notes and any requesting holder or holders of 10% or more in aggregate unpaid principal amount of the Notes then outstanding, to visit and inspect any of the properties, corporate books and financial records of the Company and its Subsidiaries, and to discuss the affairs, finances and accounts of any of such corporations with the principal offices of the Company, all at such reasonable times and as often as you may reasonably request. Except as permitted in this Agreement or as may be necessary in connection with the enforcement of the Company's obligations hereunder and under the Notes, you agree, and any such holders must agree prior to making any inspection, to keep all nonpublic information concerning the Company confidential.

7D. Maintenance of Business . The Company and its Subsidiaries will preserve and keep in force and effect all licenses and permits necessary to the proper conduct of their respective businesses, the failure of which to keep in full force and effect would have a material adverse effect on the condition, financial or otherwise, of the Company and its Subsidiaries, taken as a whole.

7E. Taxes . The Company will duly pay or discharge and will cause its Subsidiaries to duly pay and discharge all taxes, assessments and other governmental charges upon or against the Company or such Subsidiaries or their respective properties as well as all other liabilities of the Company or such Subsidiaries, in each case before the same become delinquent and before penalties accrue thereon, unless and to the extent that the same are being contested in good faith and by appropriate proceedings.

7F. Insurance . The Company will keep and maintain or cause to be kept and maintained, with financially sound and reputable insurers, insurance with respect to its properties and business and the properties and businesses of each of its Subsidiaries against such casualties, risks and contingencies, and of such types, and having such terms, and in such amounts, as is required by law or as is customary for corporations or other persons engaged in the same or similar business or having similar properties similarly situated.

7G. Notice of Reportable Events . The Company will deliver to you as long as you shall hold any Note and to any requesting holder or holders of 10% or more in aggregate unpaid principal amount of the Notes then outstanding, as soon as possible and in any event within 30 days after the Company shall have obtained knowledge that a Reportable Event has occurred with respect to any Plan, a certificate of an officer of the Company setting forth the details as to such Reportable Event and the action which the Company proposes to take with respect thereto, and a copy of each notice of a Reportable Event sent to the Pension Benefit Guaranty Corporation by the Company.

7H. Control of A.O. Smith Corporation . The Pledged Stock together with the additional A.O. Smith Corporation stock held in the safety deposit box in accordance with the provisions of Section 9D hereof shall at all times have the power to elect, appoint or cause the election of at least a majority of the members of the Board of Directors of A.O. Smith Corporation.

7I. Incurrence of Debt; Notice to Aid Association for Lutherans . The Company will not, and will not permit any Subsidiary to, incur indebtedness secured by A.O. Smith Corporation stock unless it shall first notify Aid Association for Lutherans, if it is then a holder of the Notes, in writing of the amount of such proposed indebtedness and Aid Association for Lutherans shall have an opportunity:

a. to present the terms on which Aid Association for Lutherans would be willing to lend such funds; and

b. discuss such terms with representatives of the Company.

The Company and each Subsidiary agree that neither the Company nor any Subsidiary will enter into any binding commitment for such indebtedness until five (5) business days after the notice required hereby has been given and thereafter, if the funds are available from Aid Association for Lutherans on terms and conditions which are substantially similar to those on funds available from other sources, to borrow such funds from Aid Association for Lutherans, and if Aid Association for Lutherans is not willing to provide funds on substantially similar terms, then the funds may be obtained from whatever sources and on whatever terms Company or Subsidiary may in its sole discretion determine.

8. Events of Default; Remedies . If any of the following events shall occur and be continuing, it shall constitute an Event of Default as the term is used herein:

(a) If the Company defaults in the payment of any principal of any Note, when the same shall become due, either by the terms thereof or otherwise as herein provided; or

(b) If the Company defaults in the payment of any interest on any Note for more than 10 days after the date due; or

(c) If the Company defaults in any payment of principal of or interest on any other obligation for borrowed money (including guarantees and any obligation secured by purchase money mortgage) which exceed $50,000 in the aggregate beyond any period of grace provided with respect thereto or defaults in the performance of any other agreement, term or condition contained in any agreement under which any such obligation is created if the effect of such default is to cause such obligation to become due prior to its stated maturity unless the Company is contesting in good faith by appropriate proceedings the default or alleged default on such other obligation and you have been furnished with an opinion of counsel satisfactory to you to the effect that the Company is not in default on such obligation; or

(d) If any material representation or warranty made by the Company herein, in the Pledge Agreement or in any writing furnished in connection with or pursuant to this Agreement or the Pledge Agreement shall be false in any material respect on the date as of which made; or

(e) If the Company defaults in the performance or observance of any agreement or covenant contained in paragraph 6 or 9 hereof, or in the Pledge Agreement;

(f) If the Company defaults in the performance or observance of any other agreement, covenant, term or condition contained herein and such default shall not have been remedied within 30 days after written notice thereof shall have been received by the Company from you; or

(g) If the Company makes an assignment for the benefit of creditors; or

(h) If the Company petitions or applies to any tribunal for the appointment of a trustee or receiver of the Company, or of any substantial part of the assets of the Company, or commences any proceedings relating to the Company under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation laws of any jurisdiction, whether now or hereafter in effect; or

(i) If any such petition or application is filed, or any such proceedings are commenced, against the Company, and the Company by any act indicates its approval thereof, consent thereto, or acquiescence therein, or an order entered appointing any such trustee or receiver, or adjudicating the Company bankrupt or insolvent, or approving the petition in any such proceedings, and such order remains in effect for more than 60 days; or

(j) If any order is entered in any proceedings against the Company decreeing the dissolution or split-up of the Company, and such order remains in effect for more than 60 days; or

(k) If the Pledged Stock together with the additional A.O. Smith Corporation stock held in the safety deposit box in accordance with the provisions of Section 9D hereof ceases to have the power to elect, appoint or cause the election of at least the majority of the Board of Directors of A.O. Smith Corporation; or

(l) If the stock into which the Pledged Stock is convertible into ceases to be regularly traded on a recognized United States exchange; or

(m) Descendants of Arthur O. Smith (deceased) cease to be the owners, directly or indirectly, of a majority in the aggregate of the total voting power of the voting stock of the Company, whether as a result of issuance of securities of the Company, any merger, consolidation, liquidation or dissolution of the Company, any direct or indirect transfer of securities or otherwise.

When an Event of Default described in clauses (a) or (b) above has occurred and is continuing, any holder of any Note may, and when any Event of Default described in clauses (c) through (f) above has occurred and is continuing, the holder or holders of 50% or more in aggregate unpaid principal amount of the Notes at the time outstanding may, by notice in writing to the Company, declare the principal of and any accrued interest on all outstanding Notes to be immediately due and payable; and thereupon all Notes, including both principal and interest, shall become immediately due and payable. When any Event of Default described in clauses (g) through (j), inclusive, has occurred then all outstanding Notes, including both principal and interest, shall immediately become due and payable without presentment, demand or notice of any kind.

The Company agrees to pay to the holder or holders of any of the Notes then outstanding hereunder all costs and expenses incurred by them in the collection of any such Notes, including reasonable compensation to such holder or holders' attorneys for all services rendered in connection therewith.

In addition to the other rights granted to the holder or holders of the Notes herein upon the happening of an Event of Default, if the Event of Default shall have occurred as a result of the intentional, deliberate and willful violation by the Company of any provision, covenant or agreement hereof, and if the principal and interest on the Notes have been declared due and payable in the manner above specified, then, to the full extent enforceable under applicable law, the holder or holders of the Notes shall be entitled to receive and the Company shall be obligated and promises to pay, in addition to all other amounts provided for herein, a premium, which premium shall be equal to 7.46% of such principal and interest, or such lesser premium which would have been payable under paragraph 4D (based on an Applicable Treasury Rate computed using 50 basis points) had there been a voluntary prepayment by the Company at the time the principal was declared due and payable by said holder or holders.

The rights and remedies set forth in this letter agreement and in the Pledge Agreement are in addition to all rights and remedies granted by law or in equity.

9. Pledge of Stock .

9A. Delivery of Pledged Stock . At Closing the Company shall deliver to you or your agent as security for the Notes shares of Class A Common Stock of A.O. Smith Corporation (subject to adjustment from time to time as hereinafter set forth) with appropriate stock powers executed by the Company in blank necessary to provide 200% market value coverage to the principal amount of the Notes plus interest thereon for one quarter (the "Pledged Stock"). When so implemented, the Pledge Agreement shall create a first lien security interest in the Pledged Stock.

9B. Adjustments of Pledged Stock . The aggregate market value of the Pledged Stock shall at all times be at least equal to 200% of the aggregate outstanding principal balance of the Note or Notes plus accrued interest and any other amounts due thereon. The aggregate market value of the Pledged Stock shall be determined initially, that is, when delivered to you, based on the last per share sale price for the Class A Common Stock of A.O. Smith Corporation as reported in the American Stock Exchange-Composites Transaction Section of the Midwest Edition of the Wall Street Journal for the last business day prior to such delivery (unless the American Stock Exchange is closed on such date, then the last business day the American Stock Exchange is open prior to such delivery), or in case no sale of such A.O. Smith Corporation stock has taken place on such day, then (i) the average of the closing bid and asked prices in the applicable exchange on such day as confirmed in writing addressed to you and the Company by a Milwaukee brokerage firm selected by you that is a member of the American Stock Exchange and delivered to you with the Pledged Stock or (ii) at the Company's option, the Class A Common stock may be valued based on the then existing conversion ratio for the Class A Common into Common and the per share sale price for the Common Stock of A.O. Smith Corporation as reported in the New York Stock Exchange-Composites Transaction Section of the Midwest Edition of the Wall Street Journal for the last business day prior to such delivery (unless the New York Stock Exchange is closed on such date, then the last business day the New York Stock Exchange is open prior to such delivery).

The aggregate market value of the Pledged Stock shall be computed by the Company monthly on the first business day of each calendar month so long as the Note or Notes remain outstanding based upon the last per share sale price for the applicable class of stock of A.O. Smith Corporation as reported in the American Stock Exchange-Composite Transactions section of the Midwest Edition of the Wall Street Journal for the last business day of the preceding calendar month (unless the American Stock Exchange is closed on such date, then on the last business day the American Stock Exchange is open prior to such date), or in case no sale of such A.O. Smith Corporation stock has taken place on such day, then (i) the average of the closing bid and asked prices on such day on the American Stock Exchange as confirmed to you and the Company by a Milwaukee brokerage firm selected by you that is a member of the American Stock Exchange, or (ii) at the Company's option, the Class A Common stock may be valued based on the then existing conversion ratio for the Class A Common into Common and the per share sale price for the Common Stock of A.O. Smith Corporation as reported in the New York Stock Exchange-Composites Transaction Section of the Midwest Edition of the Wall Street Journal for the last business day prior to such delivery (unless the New York Stock Exchange is closed on such date, then the last business day the New York Stock Exchange is open prior to such delivery). Advice as to such aggregate market value at the end of the preceding calendar month and the basis for the computation thereof (including any report as to the closing bid and asked prices by a Milwaukee brokerage firm and, if the Class A Common Stock is valued based upon the value of the Common Stock, certifying that the conditions set forth in clause (ii) above have been met) shall be given to you by the Company by the third business day of each calendar month in writing, or by telephonic or facsimile communication confirmed in writing immediately thereafter.

In the event A.O. Smith Corporation (Class A Common Stock or Common Stock depending on which is being valued) is no longer traded on the American Stock Exchange or the New York Stock Exchange but is regularly traded (and quoted) on another recognized United States exchange, such other exchange shall be substituted for the American Stock Exchange or the New York Stock Exchange in this paragraph 9.

In the event the market value of Class A Common Stock cannot be determined as provided herein, whether because such stock is no longer regularly traded on any exchange or for any other reason, such market value shall be determined as if such Class A Common Stock had been converted to Common Stock.

To the extent that the aggregate market value of the Pledged Stock held on the last day of any calendar month shall not be at least equal to 200% of the then outstanding principal balance of the Note or Notes plus accrued interest and any other amounts due thereon, the Company shall deliver to you or your agent by the fifth business day of the following calendar month additional certificates representing sufficient additional shares of Class A Common Stock of A.O. Smith Corporation (or, if the Company has insufficient shares of Class A Common Stock, shares of Common Stock of A.O. Smith Corporation) so that the aggregate market value of the Pledged Stock at the end of the preceding calendar month, including such additional shares, shall be at least equal to 200% of the then outstanding principal balance of the Note or Notes plus accrued interest and any other amounts due thereon.

To the extent the aggregate market value of the Pledged Stock held on the last day of any calendar month is more than $100,000 in excess of 200% of the then outstanding principal balance of the Note or Notes plus accrued interest and any other amounts due thereon, and providing no Event of Default or Default exists, upon written request by the Company addressed to you accompanied by an Officer's Certificate to the effect that no Event of Default or Default exists, you shall, or you shall instruct your agent to, return to the Company (subject to the provisions of paragraph 9D hereof) within five business days after your receipt of such notice and Officer's Certificate certificates for sufficient shares of Pledged Stock to reduce the aggregate market value of the Pledged Stock then held so that it shall not be in excess of 200% (or such higher percentage as the Company shall specify in said written request to you) of the then outstanding principal balance of the Note or Notes plus accrued interest and any other amounts due thereon.

For the purpose of meeting the requirements of this subparagraph B, certificates for shares of Pledged Stock required to be delivered to you or your agent or returned to the Company as the case may be, shall (except as otherwise provided in this subparagraph B or in the Pledge Agreement) represent a number of shares of Pledged Stock, in the aggregate, so as to be equal to the nearest 100 shares of the number of shares of Pledged Stock required to be delivered to you or your agent or returned to the Company, as the case may be. All Pledged Stock delivered to you or your agent pursuant to the requirements of this subparagraph B shall be accompanied by appropriate stock powers endorsed in blank by the Company and shall be subject to the first lien of the Pledge Agreement.

9C. Agent Under the Pledge Agreement . You have advised us that MARSHALL & ILSLEY TRUST COMPANY, 1000 North Water Street, Milwaukee, Wisconsin ("Bank") will

act, unless you advise the Company to the contrary in writing, as agent for you to hold the Pledged Stock, together with the stock powers relating thereto, in safekeeping. The Bank, as such agent, will act with respect to the Pledged Stock only upon your express written instructions. The Company agrees to pay all reasonable fees of the Bank for its services as such agent, promptly after receipt from you of any statement by the Bank for such services.

9D. Stock Not Pledged . Any of the A.O. Smith Corporation stock listed on Exhibit D to this Agreement, not then subject to the Pledge Agreement (the "Other Stock"), shall be held in a safety deposit box in the Company's name at the M&I Marshall & Ilsley Bank, Menomonee Falls, Wisconsin office ("M&I"). Promptly following the end of each calendar quarter an officer of the M&I and an officer of the Company shall each certify to you in writing that such stock remains in such safety deposit box, identifying the same by certificate number, number of shares and class. You may, at any time, upon reasonable notice to the Company, make your own examination of said safety deposit box to confirm and identify that such A.O. Smith Corporation stock remains in such box. The Company will provide access to said box to any representative authorized by you who may be accompanied by a representative of the Company and/or the M&I. Withdrawal of stock from said safety deposit box to satisfy the requirements of this paragraph 9 may be made, provided, however, that prompt written notice thereof is given by the Company to you, and provided also that such stock is directly and promptly delivered to the Bank to be held by the Bank pursuant to the Pledge Agreement. Withdrawal of stock from said safety deposit box may also be made to divide an individual certificate into certificates representing (in the aggregate) the same number of shares (in order to satisfy the requirements of this paragraph 9) provided, however, that prompt written notice thereof is given by the Company to you (giving the certificate number and number of shares being withdrawn), that such certificate is immediately delivered to the transfer agent for division, that the resulting certificates are, upon return by the transfer agent, immediately returned to the safety deposit box, and that no more than 750,000 shares evidenced by no more than one certificate, are withdrawn and outstanding at any one time.

9E. Decline in Value; Prepayment . If at the time an additional pledge of A.O. Smith Corporation stock is required under this paragraph 9, the market value of all of the A.O. Smith Corporation stock subject to pledge under this Agreement (being all the stock referred to in paragraph 6C hereof) is not sufficient to satisfy and the Company fails to timely comply with the requirements of paragraph 9B hereof, the Company shall nevertheless complete the pledge of stock required hereunder. The Company may then immediately prepay the Note in full, and all accrued interest, without premium; otherwise you may proceed to exercise your rights under paragraph 8 of this Agreement and under the Pledge Agreement.

10. Representation by Aid Association for Lutherans . You represent and in making this sale to you it is specifically understood and agreed that you are acquiring the Note for the purpose of investment and not with a present intention of selling or of making any other distribution thereof, provided that the disposition of your property shall at all times be and remain within your control.

11. Definitions . For the purposes of this Agreement, the following terms shall have the following meanings:

11A. " Capitalized Lease Obligations " shall mean all rental obligations which, under generally accepted accounting principles, are or will be required to be capitalized on the books of the Company or any Subsidiary in accordance with such principles. "Capitalized Lease" shall mean a lease the rental obligations under which are Capitalized Lease Obligations.

11B. " Consolidated Net Income " shall mean the consolidated net income of the Company determined in accordance with generally accepted accounting principles consistently applied. (See paragraph 11P.)

11C. " Consolidated Tangible Net Worth " shall mean the gross book value of the assets of the Company and its Subsidiaries (exclusive of goodwill, patents, trademarks, tradenames, organization expense, unamortized debt discount and expense and other intangibles) less reserves applicable thereto and all liabilities (including deferred income taxes and minority interests) other than capital stock and surplus, all determined on a consolidated basis in accordance with generally accepted accounting principles consistently applied. (See paragraph 11P.)

11D. " Current Debt " shall mean all indebtedness for borrowed money maturing on demand or not more than one year after the date of determination thereof and not renewable or extendible at the option of the obligor beyond such year, provided that indebtedness for borrowed money arising under a revolving credit or similar agreement which obligates the lender to extend credit over a period of more than one year shall constitute Funded Debt and not Current Debt.

11E. " ERISA " shall mean the federal Employment Retirement Income Security Act of 1974, as amended.

11F. " Event of Default " shall mean any of the events specified in paragraph 8, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act, and " Default " shall mean any of such events, whether or not any such requirement has been satisfied.

11G. Intentionally deleted.

11H. " Funded Debt " shall mean and include without duplication,

(i) any obligation payable more than one year from the date of creation thereof, which under generally accepted accounting principles is shown on the balance sheet as a liability (including Capitalized Lease Obligations but excluding reserves for deferred income taxes and other reserves to the extent that such reserves do not constitute an obligation),

(ii) indebtedness payable more than one year from the date of creation thereof which is secured by any lien on property owned by the Company or any Subsidiary, whether or not the indebtedness secured thereby shall have been assumed by the Company or such Subsidiary,

(iii) guarantees, endorsements (other than endorsements of negotiable instruments for collection in the ordinary course of business) and other contingent liabilities (whether direct or indirect) in connection with the obligations, stock or dividends of any Person,

(iv) obligations under any contract providing for the making of loans, advances or capital contributions to any Person, in each case in order to enable such Person primarily to maintain working capital, net worth or any other balance sheet condition or to pay debts, dividends or expenses,

(v) obligations under any contract for the purchase of materials, supplies or other property or services if such contract (or any related document) requires that payment for such materials, supplies or other property or services shall be made regardless of whether or not delivery of such materials, supplies or other property or services is ever made or tendered,

(vi) obligations under any contract to rent or lease (as lessee) any real or personal property if such contract (or any related document) provides that the obligation to make payments thereunder is absolute and unconditional under conditions not customarily found in commercial leases then in general use or requires that the lessee purchase or otherwise acquire securities or obligations of the lessor,

(vii) obligations under any contract for the sale or use of materials, supplies or other property or services if such contract (or any related document) requires that payment for such materials, supplies or other property or services, or the use thereof, shall be subordinated to any indebtedness (of the purchaser or user of such materials, supplies or other property or the Person entitled to the benefit of such services) owed or to be owed to any Person, and

(viii) obligations under any other contract which, in economic effect, is substantially equivalent to a guarantee,

all as determined in accordance with generally accepted accounting principles.

11I. "Officer's Certificate" shall mean a certificate signed in the name of the Company by its Chairman of the Board, President, one of its Vice Presidents, its Treasurer or its Secretary.

11J. "Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

11K. "Plan" shall mean any pension benefit plan subject to Title IV of ERISA maintained by the Company, any Subsidiary or any member of the controlled group (a controlled group of corporations as defined in Section 1563 of the Internal Revenue Code of 1954, as amended, of which the Company is a part), or any such Plan to which the Company, any Subsidiary or any member of the controlled group is required to contribute on behalf of its employees.

11L. "Reportable Event" shall mean a reportable event as that term is defined in Title IV of ERISA.

11M. "Subsidiary " shall mean and include any corporation, more than 50% of the Voting Stock of which, shall, at the time any determination is made, be owned by the Company either directly or through Subsidiaries. (See paragraph 11P.)

11N. "Voting Stock " shall mean and include stock of the class or classes having general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such corporation (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

11O. Intentionally deleted.

11P. Limitations (A.O. Smith Corporation) . For purposes of this Agreement and the definitions herein contained, A.O. Smith Corporation shall not be deemed a Subsidiary, nor shall its financial statements be consolidated with the financial statements of the Company notwithstanding Statement of Financial Accounting Standards No. 94 or the references in this Agreement to "consolidated" or to generally accepted accounting principles; rather the interest of the Company in A.O. Smith Corporation, shall, as it has in the past, continue to be reflected pursuant to the equity method of accounting.

12. Miscellaneous .

12A. Home Office Payment . The Company agrees that, as long as you shall hold any Note, it will make payments of principal thereof and interest and premium, if any, thereon, and give notices relating thereto, in the manner and to the account designated by you in Exhibit F hereto attached, or in such other manner and to such other account within the United States as you may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. You agree that, before disposing of any Note, you will make a notation thereon of all principal payments previously made thereon and of the date to which interest thereon has been paid, and will notify the Company of the name and address of the transferee of such Note.

12B. Non-Business Due Date . If any payment of principal or interest falls due on a Saturday, Sunday or other day which is not a business day, then such due date shall be extended to the next following business day and additional interest shall accrue and be payable for the period of such extension.

12C. Expenses . Whether or not the transactions herein contemplated shall be consummated, the Company agrees to pay all expenses incident to the transactions contemplated by this Agreement, including but not limited to, all printing expenses and the reasonable charges and disbursements of your special counsel. In addition, so long as you hold any of the Notes, the Company will pay all such expenses relating to amendments, waivers or consents with respect thereto. Although the Company is of the opinion and is so advised by its counsel that no federal or state documentary or similar taxes are payable in respect to this Agreement or the Notes the Company will pay such taxes, including interest and penalties, in the event any such taxes are assessed irrespective of when such assessment is made and whether or not any Notes are then outstanding and agrees to indemnify and hold you harmless from any liability on account of such

taxes. If and to the extent that any interest equalization taxes or other similar levies of the United States of America designed to limit or restrict investments in foreign securities shall be payable or determined to be payable in connection with any of the transactions hereby contemplated as a result of your reliance upon the truth and accuracy of the representations of the Company contained in paragraph 5K, the Company will indemnify and hold you and all subsequent holders of any of the Notes harmless from all such liabilities (including any income taxes in respect of any reimbursement of any such interest equalization taxes or other similar levies), whether or not any Notes are then outstanding.

12D. Consent to Amendments . This Agreement may be amended, and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Company shall obtain the written consent to such amendment, action or omission to act given by the holder or holders of at least two-thirds of the principal amount of the Notes at the time outstanding, except that, without the written consent of the holder or holders of all of the Notes affected thereby at the time outstanding, no amendment to this Agreement shall extend the maturity of any Note, or reduce the rate of interest or premium payable with respect to any Note, or affect the amount of any required prepayments, or reduce the proportion of the principal amount of the Notes required with respect to any consent or give any Note preference over any other Note. Each holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this paragraph 12D, whether or not such Note shall have been marked to indicate such consent, but any Note issued thereafter shall bear a notation referring to any such consent. No such consent shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

12E. Form, Registration, Transfer and Exchange of Notes . The Notes are issuable only as registered Notes without coupons in the denominations of $1,000,000 and any integral multiple of $1,000,000. The Company shall keep at its principal office a register in which the Company shall provide for the registration of Notes and of transfers of Notes. Upon surrender for registration of transfer of any Note at the office of the Company, the Company shall execute and deliver, at its expense, one or more new Notes of the same type and of a like aggregate unpaid principal amount registered in the name of the designated transferee or transferees. At the option of the holder of any Note, such Note may be exchanged for other Notes of the same type of any authorized denominations, of a like aggregate unpaid principal amount, upon surrender of the Note to be exchanged at the office of the Company. Whenever any Notes are so surrendered for exchange, the Company shall execute and deliver, at its expense, the Notes which the Note holder making the exchange is entitled to receive. Every Note presented or surrendered for registration of transfer shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the holder of such Note or his attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall be substantially in the form of Exhibit A hereto attached, with appropriate insertions and variations and carrying the rights to unpaid interest and interest to accrue were carried by the Note so exchanged or transferred, and neither gain nor loss of interest shall result from any such transfer or exchange.

12F. Persons Deemed Owners . The Company may treat the person in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of (and premium, if any) and interest on, such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the Company shall not be affected by notice to the contrary.

12G. Survival of Representations and Warranties . All representations and warranties contained herein or made in writing by the Company in connection herewith shall survive the execution and delivery of this Agreement, the Pledge Agreement and of the Notes.

12H. Loss or Destruction of Note . Upon receipt of evidence satisfactory to the Company of the loss, theft, mutilation or destruction of any Note, and in the case of any such loss, theft or destruction upon delivery of a bond of indemnity in such form and amount as shall be reasonably satisfactory to the Company, or in the event of such mutilation upon surrender and cancellation of the Note, the Company will make and deliver a new Note, of like tenor, in lieu of such lost, stolen, destroyed or mutilated Note. If you are the owner of any such lost, stolen or destroyed Note, then the affidavit of your president or treasurer setting forth the fact of loss, theft or destruction and of your ownership of the Note at the time of such loss, theft or destruction shall be accepted as satisfactory evidence thereof and no indemnity shall be required as a condition to execution and delivery of a new Note other than your written agreement to indemnify the Company.

12I. Delay not Waiver . No delay or failure on the part of you or the holder of any Note in the exercise of any power or right shall operate as a waiver thereof., nor shall any single or partial exercise of the same preclude any other or further exercise, thereof, or the exercise of any other power or right, and the rights and remedies of you and the holder of any Note are cumulative to and not exclusive of any rights or remedies which you or any such holder would otherwise have.

12J. Successors and Assigns . All covenants and agreements in this Agreement contained by or on behalf of either of the parties hereto shall bind and inure, to the benefit of the respective successors and assigns of the parties hereto whether so expressed or not.

12K. Notices . All communications provided for hereunder shall be sent by first class mail and, if to you, addressed to you in the manner (except as otherwise provided in paragraph 12A with respect to payments of principal of and interest and premium, if any, on the Notes and notices relating thereto) in which this letter is addressed, and if to the Company, at Post Office Box 245011, Milwaukee, Wisconsin 53224-9511 (Attention: Treasurer with a copy to Jere D. McGaffey, Foley & Lardner, 777 E. Wisconsin Avenue, Milwaukee, WI 53202), or to such other address with respect to either party as such party shall notify the other in writing. Notices by the Company given pursuant to paragraph 4E shall be given by registered or certified mail.

12L. Descriptive Headings . The descriptive headings of the several paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

12M. Governing Law . This Agreement is being delivered and is intended to be performed in the State of Wisconsin, and shall be construed and enforced in accordance with the laws of such state.

12N. Counterparts . This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterpart of this letter and return the same to the undersigned, whereupon this letter shall become a binding agreement between you and the undersigned.

Very truly yours,

SMITH INVESTMENT COMPANY

(Corporate Seal)

Attest:

By: \s\ Bruce M. Smith
Bruce M. Smith
Chairman, President & Chief Executive Officer

\s\ Wesley A. Ulrich
Wesley A. Ulrich, Vice President,
Chief Financial Officer,
Secretary & Treasurer

AID ASSOCIATION FOR LUTHERANS,

By: \s\ R. Jerry Schael
Name: R. Jerry Schael
Title: Second Vice President – Securities

Exhibit 4

PLEDGE AGREEMENT

PLEDGE AGREEMENT (this "Pledge Agreement"), dated August 30, 2001, between SMITH INVESTMENT COMPANY, a Nevada corporation (the "Pledgor"), the AID ASSOCIATION FOR LUTHERANS, a Wisconsin fraternal benefit society (herein, in its capacity as pledgee hereunder, together with its successors as pledgee hereunder, called the "Pledgee"):

PRELIMINARY STATEMENT

The Pledgor has entered into a letter agreement, dated as of August 30, 2001 (herein, as amended and modified from time to time, called the "Agreement"), with Aid Association for Lutherans, a Wisconsin fraternal benefit society, providing for the purchase by Pledgee of the Pledgor's 7.46% Notes due July 30, 2013 (herein, together with all securities issued in exchange or replacement therefor, called the "Notes"), in an aggregate principal amount not to exceed $20,000,000. Capitalized terms used herein without definition have the meanings ascribed to them in the Agreement.

The Agreement provides, among other things, that the Pledgor grant to the Pledgee a first security interest in the Pledged Stock hereinafter mentioned as security for the Notes.

PLEDGE

The Pledgor hereby grants a security interest in, and delivers to the Pledgee or such agent as the Pledgee has duly designated in writing to the Pledgor prior to or concurrently with such delivery, as security for the payment of the Notes and the due performance of all obligations of the Pledgor under the Agreement and under this Pledge Agreement, the A.O. Smith Corporation shares of stock, with appropriate stock powers executed by the Pledgor in blank, as required by and as described in the Agreement (herein, together with any additional shares of such stock and stock powers that may be delivered to the Pledgee or its agent in accordance with the Agreement, called the "Pledged Stock"). The Pledgor represents and warrants to, and agrees with, the Pledgee that as of the date hereof and as of the date of any future delivery to the Pledgee or its agent, such shares of stock of A.O. Smith Corporation are and will be represented by stock certificates, and that each such stock certificate, accompanied by an instrument of assignment duly executed in blank by the Pledgor, will be delivered by the Pledgor to the Pledgee or the Pledgee's duly designated agent. The number of shares of Pledged Stock subject hereto may be increased or decreased, from time to time, all as provided in the Agreement.

The Pledged Stock is to be held and disposed of subject to the terms, covenants and conditions hereinafter set forth:

1. Terms of Acceptance by Pledgee . The Pledgee accepts the deposit and pledge of the Pledged Stock made by the Pledgor hereunder and agrees to hold the Pledged Stock, or by its duly designated agent, as herein provided, but only upon the following terms and conditions:

(a) each holder of a Note by its acceptance thereof authorizes the Pledgee to exercise such powers under this Pledge Agreement as are specifically delegated to the Pledgee by the terms hereof, together with such powers as are reasonably incidental thereto;

(b) the Pledgee may execute any of its duties under this Pledge Agreement by or through agents or employees and shall be entitled to retain counsel and to act in reliance upon the advice of such counsel concerning all matters pertaining to its duties hereunder, and shall hold, itself, or by its duly designated agent, any and all of the Pledged Stock at any time received pursuant to the provisions of this Pledge Agreement and the Agreement for the ratable benefit of all the holders of the Notes;

(c) the Pledgee shall be under no obligation to take any action in respect of this Pledge Agreement or pursuant to this Pledge Agreement unless and until furnished with an indemnity satisfactory to it against any liability and expense in connection with the taking of such action;

(d) the Pledgee shall have no duty to take any affirmative action under this Pledge Agreement unless directed to do so by the holders of a majority in aggregate principal amount of the Notes then outstanding, and shall in all cases be fully protected with the written instructions signed by or on behalf of the holders of a majority in aggregate principal amount of the Notes then outstanding, and such instrument and any action taken or not taken pursuant thereto, shall be binding upon the holders of the Notes;

(e) the Pledgee shall be entitled to rely, for all purposes of this Pledge Agreement, upon any request or notice delivered to it as provided herein, with respect to the matters stated therein and each such request or notice shall be a full warrant to the Pledgee for any action taken, suffered or omitted by it in reliance thereon;

(f) the Pledgee shall not be liable with respect to action lawfully taken or omitted to be taken by it in good faith, in accordance with the direction of the holders of a majority in aggregate principal amount of the Notes then outstanding, relating to the time, method and place of conducting any proceeding for any remedy available to the Pledgee or exercising any power conferred upon the Pledgee under the Agreement; and

(g) neither the Pledgee nor any of its directors, officers or employees shall be liable for any action taken or omitted to be taken by it or them under this Pledge Agreement, except for its or their own gross negligence or willful misconduct, nor shall the Pledgee be responsible for the validity, effectiveness or sufficiency of this Pledge Agreement or any of the Pledged Stock.

2. Ownership and Registration of the Pledged Stock . The Pledgor represents and warrants that:

(a) the Pledged Stock is duly issued, fully paid and nonassessable (except for statutory provisions imposing liability for unpaid wages and salaries owing to employees);

(b) the Pledgor owns the Pledged Stock free and clear of any security interest or charge, except the security interest granted under this Pledge Agreement; and

(c) the Pledgor has good right and lawful authority to grant a security interest in and deliver the Pledged Stock as provided in this Pledge Agreement.

The foregoing representations and warranties shall also be true and correct at the time of any future delivery of Pledged Stock to the Pledgee or its agent. The Pledgor will warrant and defend the Pledgor's title to the Pledged Stock, and the security interest therein created by this Pledge Agreement, against all claims of all persons, and will maintain and preserve such security interest. Without the prior consent of the Pledgee and the holders of all the Notes then outstanding, the Pledgor will not transfer, create or otherwise dispose of any interest in, or grant any option with respect to, or pledge the Pledged Stock.

3. Votes, Consents, Waivers and Ratifications of the Pledged Stock . Unless a Default or an Event of Default shall have occurred and be continuing, the Pledgor shall have the right to vote any and all of the Pledged Stock and to give consents, waivers and ratifications in respect of the Pledged Stock; provided, however, that no vote shall be cast, and no consent, waiver or ratification shall be given, which would be inconsistent with any of the provisions of the Notes, the Agreement, this Pledge Agreement or any other instrument or agreement referred to herein or therein, which would result in an amendment, modification or waiver of any of the provisions of the Certificate of Incorporation of A.O. Smith Corporation affecting or relating to the convertibility of any Class A Common Stock into Common Stock, or which would otherwise affect or relate to the convertibility of any Class A Common Stock into Common Stock. Such right of the Pledgor to vote and give consents, waivers and ratifications shall cease if a Default or an Event of Default shall occur and be continuing. Whenever a Default or an Event of Default has occurred and is continuing, the Pledgee may transfer into its name, or into the name of its nominee or nominees, any or all of the Pledged Stock and may vote any or all of the Pledged Stock (whether or not so transferred) and may give all consents, waivers and ratifications in respect thereof and may otherwise act with respect thereto as though it were the outright owner thereof, the Pledgor hereby irrevocably constituting and appointing the Pledgee as the proxy and attorney-in-fact of the Pledgor, with full power of substitution, to do so.

4. Dividends on Pledged Stock . All cash dividends on the Pledged Stock shall be paid to the Pledgor, provided that no Default or Event of Default shall have occurred and be continuing. All dividends (other than cash dividends) and all other distributions in respect of any of the Pledged Stock, whenever paid or made, and all cash dividends on the Pledged Stock paid after the occurrence and during the continuance of a Default or an Event of Default, shall be delivered to the Pledgee and held by it or its duly designated agent, subject to the security interest created by this Pledge Agreement.

5. Exchange of Pledged Stock . The Pledgee may deliver the Pledged Stock or any part thereof to the issuer thereof or any other person for the purpose of making denominational exchanges or registrations, transfers, substitutions or for any other purpose furthering the provisions of this Pledge Agreement or the Agreement, and the Pledged Stock or any part thereof so delivered, and any instruments issued as a result of or in connection with such delivery, shall be subject to the security interest created by this Pledge Agreement to the same extent as if no such delivery had been made.

6. Remedies in Case of an Event of Default . (a) If an Event of Default shall have occurred and be continuing, the Pledgee shall have the following rights in respect of the Pledged Stock, in addition to any rights provided by law:

(i) to vote the Pledged Stock; and

(ii) to convert the Pledged Stock which is Class A Common Stock into Pledged Stock which is Common Stock and/or to sell the Pledged Stock, upon at least 10 business days' prior notice to the Pledgor of the time and place of sale (which notice the Pledgor and the Pledgee agree is reasonable), for cash or upon credit or for future delivery, the Pledgor hereby waiving all rights, if any, of marshaling the Pledged Stock and any other security for the Notes, at the option and in the complete discretion of the Pledgee, either:

(A) at public sale, including a sale at any broker's board or exchange; or

(B) at private sale, in which event such notice shall also contain the terms of the proposed sale and the Pledgor shall have until the time of such proposed sale in which to procure a purchaser willing, ready and able to purchase the Pledged Stock on terms no less favorable to the Pledgee and the holders of the Notes, and if such a purchaser is so procured, the Pledgee shall sell the Pledged Stock to the purchaser so procured; and

(iii) on behalf of the holders of the Notes, to bid for the Pledged Stock and, in lieu of paying cash therefor, to make settlement for the selling price by crediting ratably upon the outstanding principal of, and interest and prepayment premium, if any, on the Notes, and any other sums due under the Agreement, the net selling price after deducting all reasonable costs and expenses incurred in connection therewith. The Pledgee, upon so acquiring the Pledged Stock, shall be entitled to hold, deal with and sell the same in any manner not prohibited by applicable laws.

From time to time the Pledgee may, but shall not be obligated to, postpone the time and change the place of any proposed sale of any of the Pledged Stock which has been noticed as provided above, upon at least 5 days' prior notice to the Pledgor (which notice the Pledgor and the Pledgee agree is reasonable) of the new time and place of such sale whenever, in the judgment of the Pledgee, such postponement or change is necessary or appropriate in order that the provisions of this Pledge Agreement applicable to such sale may be fulfilled or in order to obtain more favorable conditions under which such sale may take place. The method, manner, time, place and terms of any such sale of Pledged Stock must be commercially reasonable.

(b) In case of any sale by the Pledgee of the Pledged Stock on credit or for future delivery, which may be elected at the option and in the complete discretion of the Pledgee, the Pledged Stock so sold may be retained by the Pledgee until the selling price is paid by the purchaser, but the Pledgee shall incur no liability in case of failure of the purchaser to take up

and pay for the Pledged Stock so sold. In case of any such failure, such Pledged Stock so sold may be again similarly sold. After deducting all reasonable costs and expenses of every kind, the Pledgee shall ratably apply the residue of the proceeds of any sale or sales to pay the principal of, and interest and prepayment premium, if any, on the Notes and any other sums due under the Agreement. The excess, if any, shall be paid to the Pledgor, except as may otherwise be required by law.

(c) Neither failure nor delay on the part of the Pledgee to exercise any right, remedy, power or privilege provided for herein or by statute or at law or in equity shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, remedy, power or privilege preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

(d) The Pledgor recognizes that, in taking actions pursuant to this Paragraph 6, the Pledgee may be unable to effect a public sale of all or a part of the Pledged Stock by reason of certain requirements contained in the Securities Act of 1933, as amended, or any similar federal statute then in effect, and under the applicable securities or “blue sky” laws of one or more of the states (such Act, statute and laws being herein collectively called the “Securities Acts”), but may, notwithstanding the rights and agreements set forth in Paragraph 7 below, deem it necessary or appropriate to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among other things, to acquire such securities for their own account, for investment and not with a view to the distribution or sale thereof. The Pledgor agrees, notwithstanding the rights and agreements set forth in Paragraph 7 below, that such private sales so made may be at prices and on other terms less favorable to the seller than if such securities were sold at public sales, and the Pledgee has no obligation to delay sale of any such securities for the period of time necessary to permit the issuer of such securities, even if such issuer would agree, to register such securities for public sale under applicable securities laws. The Pledgor agrees that private sales made under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner.

7. Registration of the Pledged Stock . During the continuance of an Event of Default, the Pledgor, upon the written request of the Pledgee; (i) will promptly use its best efforts to cause A.O. Smith Corporation to make all necessary filings (including the filing of one or more registration statements) under the Securities Acts relating to any of the Pledged Stock issued by it designated by the Pledgee in such request and irrespective of the number of shares of such corporation then pledged to the Pledgee, and the Pledgor will in good faith use its best efforts to cause such filings to become and remain effective; (ii) will cause to be furnished to the Pledgee such number of copies as the Pledgee may request of each preliminary prospectus, prospectus and offering circular relating to the Pledged Stock issued by A.O. Smith Corporation, all of which shall comply with the requirements of the applicable securities law; (iii) will promptly notify the Pledgee of the happening of any event (of which it has knowledge) as a result of which the then effective prospectus or circular includes an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading in the light of the then existing circumstances and will cause the Pledgee to be furnished with such number of copies as the Pledgee may request of such supplement to or amendment of such prospectus or circular as is necessary to eliminate such untrue statement or supply such omission; (iv) will agree in writing to indemnify and hold the Pledgee harmless

against any claims and liabilities which the Pledgee may incur by reason of (a) any failure on the part of the Pledgor or A.O. Smith Corporation to comply with the provisions of any applicable securities laws; or (b) any untrue statement of a material fact or omission to state a material fact required to be stated in any registration statement, offering circular or prospectus relating to the Pledged Stock issued by A.O. Smith Corporation, or necessary to make the statements therein not misleading, except insofar as such claims or liabilities are caused by any such untrue statement or omission based upon, or in conformity with, information furnished in writing to the Pledgor or such corporation by the Pledgee; (v) will do any and all other acts and things which may be necessary or advisable to enable the Pledgee to consummate any proposed sale or other disposition of any of the Pledged Stock pursuant to this Pledge Agreement; and (vi) will bear all costs and expenses of carrying out its obligations under this Paragraph 7.

8. Obligations Not Affected . The obligations of the Pledgor under this Pledge Agreement shall remain in full force and effect without regard to, and shall not be impaired or affected by: (i) any amendment or modification of or addition or supplement to the Notes, the Agreement or any other instrument securing the Notes; (ii) any exercise or non-exercise by the Pledgee of any right, remedy, power or privilege under or in respect of this Pledge Agreement, the Notes, or any assignment or transfer thereof or any waiver of any such right, remedy, power or privilege (iii) except to the extent therein specified, any waiver, termination, consent, extension, indulgence or other action or inaction in respect of this Pledge Agreement, the Agreement, the Notes or any other instrument securing the Notes; (iv) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or the like, of the Pledgor or A.O. Smith Corporation; or (v) any limitation on the liability or obligations under this Pledge Agreement of the Pledgor or A.O. Smith Corporation which may now or hereafter be imposed by any statute, regulation or rule of law or any invalidity or unenforceability, in whole or in part, of this Pledge Agreement or any provision hereof, or for any other reason, whether or not the Pledgor or A.O. Smith Corporation (as the case may be) shall have notice or knowledge of any of the foregoing.

9. Accidental Loss of Pledged Stock . So long as the Pledged Stock is being held on behalf of the Pledgee by an agent designated by it for that purpose as described in Paragraph 1, the risk of accidental loss of or damage to the Pledged Stock shall be on the Pledgor to the extent of any deficiency in any effective insurance coverage. In the event that the Pledged Stock is at any time being held by the Pledgee directly rather than by its designated agent, or if the agent designed by the Pledgee to hold the Pledged Stock is not a bank or trust company having total capital and surplus of not less than $100,000,000 at the time it is so designated as agent to hold the Pledged Stock, then the Pledgee agrees to indemnify the Pledgor against any accidental loss of or damage to the Pledged Stock to the extent of any deficiency in any effective insurance coverage.

10. Notices . All notices, consents and other communications hereunder shall be in writing and shall either be delivered, or shall be sent by certified or registered mail, postage prepaid and addressed (i) if to the Pledgor, Post Office Box 245011, Milwaukee, Wisconsin 53224-9511, with a copy to Jere D. McGaffey, Foley & Lardner, 777 E. Wisconsin Avenue, Milwaukee, Wisconsin 53202, or (ii) if to the Pledgee, 4321 North Ballard Road, Appleton, Wisconsin 54919, Attention: Investment Department, or as to either party, at such other address as shall be designated by such party by notice to the other party. The addresses for the holders of

the Notes for the purposes of this Pledge Agreement shall be their respective addresses for notices specified in the register for the Notes maintained by the Pledgor pursuant to Paragraph 12E of the Agreement. All notices shall be deemed to have been given either at the time of the delivery thereof to any officer or employee of the person entitled to receive such notice at the address of such person for purposes of this Paragraph 10, or at the completion of the third full day following the time of such mailing thereof to such address, as the case may be.

11. Amendment, Succession and Headings . This Pledge Agreement may not be changed, modified or discharged orally, nor may any waivers or consents be given orally hereunder, and every such change, modification, discharge, waiver or consent shall be in writing, duly signed by or on behalf of the Pledgor and the Pledgee with the written consent of a majority in aggregate principal amount of the Notes then outstanding. This Pledge Agreement shall be binding upon the Pledgor, the Pledgee and their respective successors and assigns, and shall inure to the benefit of each holder of a Note. The captions in this Pledge Agreement are for convenience reference only and shall not define or limit the provisions hereof.

12. Return of Pledged Stock; Termination .

(a) The Pledgee shall forthwith assign, transfer and deliver, without recourse and against receipt, such of the Pledged Stock (and property received in respect thereof) as may be required pursuant to the Agreement and which has not theretofore been returned to the Pledgor, sold or otherwise applied pursuant to the provisions of this Pledge Agreement; this Pledge Agreement shall continue as to any remaining Pledged Stock. Any such assignment, transfer and delivery shall not affect the obligations of the Pledgor to subsequently deliver Pledged Stock as provided in the Agreement.

(b) Upon payment in full of the Notes and the due performance of all obligations of the Pledgor under this Pledge Agreement and under the Agreement, the Pledgee shall forthwith assign, transfer and deliver, without recourse and against receipt, such of the Pledged Stock (and any property received in respect thereof) as has not theretofore been sold or otherwise applied pursuant to the provisions of this Pledge Agreement to or upon the order of the Pledgor, whereupon this Agreement shall terminate.

(c) The Pledgee shall not be required, however, to assign, transfer and deliver any of the Pledged Stock as aforesaid unless and until the Pledgee shall have received a favorable opinion of counsel or other evidence, satisfactory to the Pledgee, as to the payment of all transfer taxes and similar governmental charges, if any, payable in connection with such assignment, transfer and delivery.

13. Holders of Notes . The Pledgee may deem and treat the person in whose name a Note is registered as the holder and owner thereof for all purposes. The Pledgor shall, upon the request of the Pledgee, furnish to the Pledgee a copy of the register for the Notes which is maintained by the Pledgor pursuant to Paragraph 12E of the Agreement.

14. Governing Law . This Agreement shall be deemed to be made under and shall be governed by the laws of the State of Wisconsin.

IN WITNESS WHEREOF, the parties have caused this Pledge Agreement to be executed by their respective officers thereunto duly authorized and their respective corporate seals to be duly affixed hereto as of the date first set forth above.

(Corporate Seal)

Attest:

\s\ Wesley A. Ulrich
Wesley A. Ulrich, Vice President,
Chief Financial Officer,
Secretary & Treasurer

SMITH INVESTMENT COMPANY
Pledgor

By: \s\ Bruce M. Smith
Bruce M. Smith
Chairman, President & Chief Executive Officer

AID ASSOCIATION FOR LUTHERANS,
Pledgee

By: \s\ R. Jerry Schael
Name: R. Jerry Schael
Title: Second Vice President – Securities

Exhibit 5

JOINT FILING AGREEMENT

In accordance with Rule 13d-1(k) of the Securities Exchange Act of 1934, as amended, the undersigned agree to the joint filing on behalf of each of them of a statement on Schedule 13D with respect to the Common Stock, par value $1.00 per share, of A.O. Smith Corporation, and further agree that this Joint Filing Agreement shall be included as an Exhibit to such joint filing. The undersigned further agree that any amendments to such statement on Schedule 13D shall be filed jointly on behalf of each of them without the necessity of entering into additional joint filing agreements.

The undersigned further agree that each party hereto is responsible for timely filing of such statement on Schedule 13D and any amendments thereto, and for the completeness and accuracy of the information concerning such party contained therein; provided that no party is responsible for the completeness or accuracy of the information concerning any other party, unless such party knows or has reason to believe that such information is inaccurate.

The undersigned shall not be deemed to admit that the undersigned was required to file a statement on Schedule 13D by reason of entering into this Joint Filing Agreement. Further, the undersigned shall not be deemed to admit membership in a group by reason of entering into this Joint Filing Agreement.

This Joint Filing Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original instrument, but all of such counterparts together shall constitute but one agreement.

In evidence thereof the undersigned, being duly authorized, hereby execute this Joint Filing Agreement as of this 4th day of February, 2008.

SMITH INVESTMENT COMPANY

By: /s/ Bruce M. Smith
Name: Bruce M. Smith
Title: Chairman and CEO

ARTHUR O. SMITH

/s/ Arthur O. Smith

BRUCE M. SMITH

/s/ Bruce M. Smith