SMITH A O CORP
Form DEF 14A
March 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant To Section 14(a) Of The

Securities Exchange Act Of 1934

(Amendment No.)

Filed by the registrant x Filed by a party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

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

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

A. O. Smith Corporation

(Name of Registrant as Specified in Its Charter)

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

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Table of Contents

11270 West Park Place

Milwaukee, WI 53224

March 15, 2013

DEAR FELLOW A. O. SMITH STOCKHOLDER:

I am pleased to invite you to our Annual Meeting of Stockholders of A. O. Smith Corporation, to be held at the U.S. Chamber of Commerce, 1615 H Street, NW, Washington, D.C. 20062, on Monday, April 15, 2013, at 5:15 P.M., Eastern Daylight Time. At this meeting, you will be asked to vote to elect directors, approve the compensation of our named executive officers by advisory vote, ratify the appointment of our independent registered public accounting firm, approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of Common Stock, approve an amendment to our Certificate of Incorporation to decrease the number of authorized shares of Class A Common Stock, and consider any other business that may properly come before the meeting.

The attached Notice of 2013 Annual Meeting of Stockholders and Proxy Statement describe the business we will conduct at the Annual Meeting.

Whether or not you will be able to attend the Annual Meeting in person, it is important that you vote your shares. You may vote your shares by signing and dating the enclosed Proxy Card and returning it in the postage-paid envelope provided. For your convenience, you may also vote your shares via the internet or by a toll-free telephone number, by following the instructions provided on the Proxy Card. If you own shares through a broker, bank or other agent, please vote your shares by providing your broker, bank or agent with your voting instructions.

You are cordially invited to attend the Annual Meeting of Stockholders in person. Even if you choose to attend in person, you are encouraged to review the proxy materials and vote your shares in advance of the meeting. Your vote is important, and we appreciate your taking the time to vote promptly.

Sincerely,

Paul W. Jones

Executive Chairman

Table of Contents

March 15, 2013

NOTICE OF 2013 ANNUAL MEETING OF STOCKHOLDERS

The 2013 Annual Meeting of Stockholders of A. O. Smith Corporation will be held at the U.S. Chamber of Commerce, 1615 H Street, NW, Washington, D.C., on Monday, April 15, 2013, at 5:15 P.M., Eastern Daylight Time, for the following purposes:

(1) To elect our Board of Directors;

(2) To hold an advisory vote to approve the compensation of our named executive officers;

(3) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013;

(4) To approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock;

(5) To approve an amendment to our Amended and Restated Certificate of Incorporation to decrease the number of authorized shares of Class A Common Stock; and

(6) To consider and act upon such other business as may properly come before the Annual Meeting.

Stockholders of record as of February 18, 2013, are entitled to vote at the Annual Meeting. The list of stockholders entitled to vote at the meeting will be available at our offices at 11270 West Park Place, Milwaukee, Wisconsin, as of March 22, 2013, for examination by stockholders for purposes related to the meeting.

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

By Order of the Board of Directors,

James F. Stern

Executive Vice President,

General Counsel and Secretary

A. O. Smith Corporation

11270 West Park Place

Milwaukee, WI 53224

PROXY STATEMENT FOR 2013 ANNUAL MEETING

TABLE OF CONTENTS

Table of Contents

PROXY STATEMENT

2013 ANNUAL MEETING

GENERAL INFORMATION

This Proxy Statement is furnished to stockholders of A. O. Smith Corporation in connection with the solicitation by its Board of Directors of proxies for use at the Annual Meeting of Stockholders of our company to be held on April 15, 2013, at 5:15 P.M., Eastern Daylight Time (EDT), at the U.S. Chamber of Commerce, 1615 H Street, NW, Washington, D.C. 20062.

Pursuant to the rules of the Security and Exchange Commission, or SEC , we are mailing this Proxy Statement, the enclosed Proxy Card and our 2012 Annual Report on or about March 15, 2013, to each stockholder at the holder s address of record.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on April 15, 2013: The Notice of 2013 Annual Meeting of Stockholders, this Proxy Statement and our 2012 Annual report are also available at www.ematerials.com/aos.

Record Date

The record date for stockholders entitled to notice of and to vote at the meeting is the close of business on February 18, 2013 (the Record Date). As of the Record Date, we had issued 6,654,332 shares of Class A Common Stock, par value $5 per share, 6,621,737 shares of which were outstanding and entitled to one (1) vote each for Class A Common Stock directors and other matters. As of the Record Date, we had issued 41,022,579 shares of Common Stock, par value $1 per share, 39,688,606 shares of which were outstanding and entitled to one (1) vote each for Common Stock directors and one-tenth (1/10th) vote each for other matters.

Class Voting for Directors

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

Quorum

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

Table of Contents

Required Vote

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

The proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock will be approved if a majority of the outstanding shares of Common Stock voting as a separate class and a majority of the outstanding shares of Class A Common Stock and Common Stock, voting together as a single class with the Class A Common Stock entitled to one (1) vote per share and the Common Stock entitled to one-tenth (1/10th) vote per share, are voted in favor of the amendment. The proposal to approve an amendment to our Amended and Restated Certificate of Incorporation to decrease the number of authorized shares of Class A Common Stock will be approved if a majority of the outstanding shares of Class A Common Stock voting as a separate class and a majority of the outstanding shares of Class A Common Stock and Common Stock, voting together as a single class with the Class A Common Stock entitled to one (1) vote per share and the Common Stock entitled to one-tenth (1/10th) vote per share, are voted in favor of the amendment. Both abstentions and broker non-votes will have the same effect as votes against approval of each of these proposals.

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

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

Cost of Soliciting Proxies

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

Table of Contents

How to Vote

Via the Internet Stockholders can simplify their voting by voting their shares via the Internet as instructed on the enclosed Proxy Card or the voting instruction form sent to them by their broker, bank or other agent. The Internet procedures are designed to authenticate a stockholder s identity to allow stockholders to vote their shares and confirm that their instructions have been properly recorded.

Internet voting for stockholders of record is available 24 hours a day and will close at 12:00 p.m. (CDT) on April 12, 2013.

By Telephone Stockholders can vote their shares by a toll-free number on the enclosed Proxy Card or in the voting instruction form sent to them by their broker, bank or other agent. Telephone voting for stockholders of record is available 24 hours a day and will close at 12:00 p.m. (CDT) on April 12, 2013.

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

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

If you submit a proxy via the Internet, by telephone or by mailing a Proxy Card without indicating your instructions, we will vote your shares consistent with the recommendations of our Board of Directors as stated in this Proxy Statement, specifically in favor of our nominees for directors, in favor of approving the compensation of our named executive officers, in favor of the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm, in favor of the amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock and in favor of the amendment to our Amended and Restated Certificate to decrease the number of authorized shares of Class A Common Stock. If any other matters are properly presented at the Annual Meeting for consideration, then our officers named on your proxy will have discretion to vote for you on those matters. As of the date of the Notice of 2013 Annual Meeting of Stockholders, we knew of no other matters to be presented at the Annual Meeting.

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

Revocation of Proxies

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

Table of Contents

Stockholders Sharing the Same Address

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

Table of Contents

PRINCIPAL STOCKHOLDERS

The following table shows persons who may be deemed to be beneficial owners (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of more than 5% of any class of our stock. Unless otherwise noted, the table reflects beneficial ownership as of December 31, 2012.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Class A Common Stock	Smith Family Voting Trust 11270 West Park Place Milwaukee, WI 53224[1]	6,285,300	94.91%
Common Stock	BlackRock Inc. 40 East 52nd Street New York, NY 10022	3,171,143[2]	8.02%
Common Stock	Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	3,005,417[3]	7.60%
Common Stock	SunTrust Banks, Inc. 303 Peachtree St., N.E. Atlanta, GA 30308	2,107,468[4]	5.30%
Common Stock	State Street Corporation State Street Financial Center One Lincoln Street Boston, MA 02111	1,999,028[5]	5.10%

1 The Smith Family Voting Trust (the Voting Trust) owned 6,285,300 shares of Class A Common Stock and 588,924 shares of Common Stock as of December 31, 2012. Pursuant to our Amended and Restated Certificate of Incorporation, Class A Common Stock is convertible at any time at the option of the holder into Common Stock on a share-for-share basis. As a result, a holder of shares of Class A Common Stock is deemed to beneficially own an equal number of shares of Common Stock. However, to avoid overstatement of the aggregate beneficial ownership of both classes of our outstanding capital stock, the shares of Class A Common Stock listed in the table do not include shares of Common Stock that may be acquired upon the conversion of outstanding shares of Class A Common Stock. The trustees of the Voting Trust are Bruce M. Smith, Arthur O. Smith (who is the uncle of Bruce M. Smith) and Robert L. Smith (who is the brother of Bruce M. Smith). The trustees do not have beneficial ownership of shares of Class A Common Stock or Common Stock owned by the Voting Trust. The Voting Trust has sole voting power, exercised by a majority of the three trustees, with respect to shares in the Voting Trust. Whenever beneficiaries of the Voting Trust possessing trust interests representing in the aggregate at least 75% of all the votes represented in the Voting Trust direct the sale of shares in the Voting Trust, the trustees must make the sale. If the trustees unanimously authorize a sale of shares in the Voting Trust, with the written consent of beneficiaries of the Voting Trust possessing trust interests representing in the aggregate a majority of all of the votes represented in the Voting Trust, the trustees may make the sale. The Voting Trust will exist until April 23, 2039 and thereafter for additional 30-year renewal periods

unless earlier terminated by a vote of beneficiaries holding 75% or more of the votes in the Voting Trust or by applicable law.

[2] Based on the Schedule 13G BlackRock Inc. filed with the SEC on February 1, 2013. BlackRock Inc. has sole voting power and sole dispositive power over 3,171,143 shares.

[3] Based on the Schedule 13G/A Vanguard Group, Inc. filed with the SEC on February 22, 2013. Vanguard Group, Inc. has sole voting power over 58,732 shares, sole dispositive power over 2,948,685 shares and shared dispositive power over 56,732 shares.

4 Based on the Schedule 13G filed with the SEC on February 15, 2013. SunTrust Banks, Inc., as parent holding company for RidgeWorth Capital Management, Inc. and its subsidiaries, has sole voting and dispositive power over 2,107,468 shares.

[5] Based on the Schedule 13G State Street Corporation filed with the SEC on February 11, 2013. State Street Corporation together with its subsidiaries has shared voting power and shared dispositive power over 1,999,028 shares.

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

Table of Contents

ELECTION OF DIRECTORS

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

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

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

NOMINEES CLASS A COMMON STOCK

RONALD D. BROWN Chief Operating Officer, The Armor Group, Inc.; Managing Director, Taft Business Consulting, LLC.

Mr. Brown, 59, has been a director of our company since 2001. He is the Chairperson of the Personnel and Compensation Committee and a member of the Nominating and Governance Committee of the Board. In February, 2013, Mr. Brown joined the Armor Group, Inc. as Chief Operating Officer. The Armor Group, Inc. is a certified woman-owned corporation which manufactures equipment and products, and provides related services to a variety of industrial markets, including beverage and food service, medical, power generation, automobile, and military. In addition, since 2009, Mr. Brown has been Managing Director of Taft Business Consulting, LLC, a consulting group affiliated with the law firm of Taft Stettinius & Hollister, LLP, which provides advisory services on a range of business issues. From 2010 to 2013, Mr. Brown served as Chief Financial Officer of Makino, a privately held global metalworking technologies company. Prior to that, Mr. Brown was chairman and chief executive officer of Milacron Inc. from 2001 to 2008, and president and chief operating officer of Milacron Inc. from 1999 through 2001. He joined Milacron Inc. in 1980. Milacron is a supplier of plastic processing and metalworking fluid technologies; the company filed for bankruptcy in 2009. Mr. Brown also serves on the Board of Zep Inc., where he is Chairman of the Compensation Committee and a member of the Nominating and Corporate Governance Committee.

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

PAUL W. JONES Executive Chairman of the Board.

Mr. Jones, 64, has been a director of our company since 2004. He is a member of the Investment Policy Committee of the Board. He was elected executive chairman of the board effective January 1, 2013. He served as chairman of the board and chief executive officer from 2011 to 2012, chairman of the board, president and chief executive officer from 2006 to 2011, and president and chief operating officer from 2004 to 2005. Prior to joining A. O. Smith, he was chairman and chief executive officer of U.S. Can Company, Inc. from 1998 to 2002. He previously was president and chief executive officer of Greenfield Industries, Inc. from 1993 to 1998 and president

Table of Contents

from 1989 to 1992. Mr. Jones has been a director of Federal Signal Corporation since 1998, where he chairs the Nominating and Governance Committee and is a member of the Executive Committee and the Compensation and Benefits Committee, and Integrys Energy Group, Inc. since 2011, where he is a member of the Compensation and Financial Committees. He also was a director of Bucyrus International, Inc. from 2006 until its acquisition by Caterpillar, Inc. in 2011, and chaired its Compensation Committee.

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

AJITA G. RAJENDRA President and Chief Executive Officer.

Mr. Rajendra, 61, has been a director of our company since 2011. He is a member of the Investment Policy Committee of the Board. Mr. Rajendra was elected president and chief executive officer effective January 1, 2013. He was president and chief operating officer from 2011 to 2012. Mr. Rajendra joined the Company as President of A. O. Smith Water Products Company in 2005, and was named Executive Vice President of the Company in 2006. Prior to joining the company, Mr. Rajendra was Senior Vice President at Kennametal, Inc., a manufacturer of cutting tools, from 1998 to 2004.

Mr. Rajendra also serves on the board of Donaldson Company, Inc., where he is a member of the Audit Committee and Human Resources Committee. Further, Mr. Rajendra was a director of Industrial Distribution Group, Inc. from 2007 until its acquisition by Eiger Holdco, LLC in 2008.

Mr. Rajendra s extensive manufacturing and international experience, and service to our Company as our President and Chief Executive Officer and in various other senior executive positions, brings to the Board knowledge and insight as to our Company s global operations and a thorough understanding of our products and markets. Further, Mr. Rajendra has other experience as a director of a publicly traded company.

MATHIAS F. SANDOVAL Former Chief Executive Officer & President, Phelps Dodge International Corporation and Former Executive Vice President, General Cable Corporation.

Mr. Sandoval, 52, has been a director of the Company since October, 2010. He is a member of the Personnel and Compensation Committee and the Nominating Governance Committee. Mr. Sandoval was chief executive officer and president of Phelps Dodge International Corporation from 2001 to 2012 and executive vice president of its parent company, General Cable Corporation, where he was chief executive officer and president of General Cable s Rest of World Segment, from 2007 to 2012. Mr. Sandoval began his 28-year career in the wire and cable industry as a process engineer in Phelps Dodge s Costa Rican operation and held numerous executive management positions at Phelps Dodge, including general manager of the Honduras-based business, president of the Venezuelan operations, vice president of the Global Aluminum Business Segment, and vice president of the Global Energy Segment. General Cable Corporation is a leader in the development, design, manufacture, marketing and distribution of copper, aluminum and fiber optic wire and cable products for the energy, industrial, specialty and communications markets. Mr. Sandoval resigned from those positions in November 2012 after General Cable Corporation disclosed certain inventory-related accounting errors involving two facilities in the Rest of World segment located in Brazil. General Cable restated its financial statements for 2009-2012 and disclosed its view that the situation involved in-part internal control deficiencies for the segment.

Mr. Sandoval brings to our Board the insights of an operating president with a publicly traded manufacturing company larger than our own. He also has extensive operating and manufacturing experience, as well as broad international experience, particularly in regions where our company has focused its growth plans. Further, he has prior board experience as a member of numerous Phelps Dodge boards, including two international publicly traded companies. As an added benefit, he brings diversity to our board. Finally, we considered his departure from Phelps Dodge International Corporation and General Cable Corporation and concluded that it does not bear on his ability to contribute as a member of our Board.

Table of Contents

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

Mr. Smith, 64, has been a director of our company since 1995. He is the Chairperson of the Investment Policy Committee and a member of the Personnel and Compensation Committee and the Nominating and Governance Committee of the Board. He was elected president of Smith Investment Company Inc. (SICO) in 1993, and served as chairman and chief executive officer of SICO from 1999 until its merger with our company in 2009. Shares of our Class A Common Stock and Common Stock were SICO s principal asset and represented a controlling position in our company until the merger. Mr. Smith was a director of SICO from 1983 to 1988 and from 1991 to 2009. From 2009 until his retirement in 2012, Mr. Smith also was chief executive officer of Smith Investment Company LLC, an entity that holds all of the assets and liabilities of SICO (other than our Class A Common Stock and Common Stock owned by SICO until the merger). Since 2009, Mr. Smith has been Chairman of the Board of Managers of Smith Investment Company, LLC. He was also chief executive officer of Berlin Industries LLC, which was engaged in multicolor printing and related services, from 1996 until its sale in 2011. Further, Mr. Smith is one of three trustees of the Smith Family Voting Trust, which holds a controlling position in the stock of our company. Mr. Smith is a first cousin of Mark D. Smith, also a director of our company. Roger S. Smith, brother of director Bruce M. Smith, is a long-standing employee of our company employed in a non-executive capacity as Director-Community Affairs.

Mr. Bruce Smith has executive level experience in handling the operational activities of SICO, with its diverse businesses. Further, he has practical experience gained through his participation on the board of SICO prior to its merger into our company. Based on his employment with our company earlier in his career and his role as a director for more than 17 years, Mr. Smith is knowledgeable of company history and understands our long term strategic and tactical plans. Mr. Smith is a member of the Smith family, which holds a controlling interest in the stock of our company.

MARK D. SMITH Business Manager, Strattec Security Corporation.

Mr. Smith, 51, has been a director of our company since 2001. He is a member of the Audit Committee of the Board. He has served as a product business manager for Strattec Security Corporation since 1997. Strattec Security Corporation designs, develops, manufactures and markets mechanical locks and keys, electronically enhanced locks and keys, steering column and instrument panel ignition lock housings, latches, and related access control products for major automotive manufacturers. Mr. Smith is a first cousin of Bruce M. Smith, also a director of our company.

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

NOMINEES COMMON STOCK

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

Mr. Current, 67, has been a director of our company since 2007. He is a member of the Audit Committee of the Board. Mr. Current retired from Northwestern Mutual Life Insurance Company (NML) in 2009 as vice president corporate affairs and assistant to the chief executive officer. He previously served as vice president of policy owner services at NML from 2006 to 2007 and as vice president, corporate planning when he joined the company in 2003. NML is the nation s largest direct provider of individual life insurance. Prior to joining NML, he was vice president and chief marketing officer of Lincoln Financial Group from 1995 to 2003.

Table of Contents

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

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

Mr. Greubel, 61, has been a director of our company since 2006. He is a chairperson of the Nominating and Governance Committee and a member of the Personnel and Compensation Committee of the Board. Mr. Greubel was the chief executive officer of Wabash National from 2002 to 2007, and has held various director positions with Wabash National, including chairman and executive director, until his retirement as a director in 2009. Wabash National is one of the leading manufacturers of semi-truck trailers in North America, specializing in the design and production of dry freight vans, refrigerated vans, flatbed trailers, drop deck trailers, and intermodal equipment. Mr. Greubel previously was chief executive officer of Accuride Corporation from 1998 until 2002 and president from 1994 until 1998. Mr. Greubel served as a director of Wabash National from 2002 to 2009 and of privately held Utilimaster Corp. from 2002 to 2009.

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

IDELLE K. WOLF Retired President, Barnes Distribution.

Ms. Wolf, 60, has been a director of our company since 2005. She is a member of the Audit Committee of the Board. Ms. Wolf was president of Barnes Distribution from 2006 to 2007 and vice president of Barnes Group Inc. from 2000 to 2007. She previously was president of Barnes Distribution North America from 2004 through 2005. She joined Barnes Group Inc. as vice president and as chief operating officer of Barnes Distribution in 2000. Barnes Distribution is a leading distributor of maintenance, repair, operating and production supplies with distribution centers in North America, Europe and Asia.

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

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

Mr. Wulf, 62, has served as a director of our company since 2003. He is the Chairperson of the Audit Committee of the Board. Until his retirement in 2011, Mr. Wulf served as executive vice president of Bemis Company, Inc. where he was responsible for integration of acquisitions, as well as global corporate strategy and information technology. He previously was senior vice president and chief financial officer of Bemis Company, Inc. from 2005 to 2010; was vice president, chief financial officer and treasurer of Bemis Company, Inc., from 2002 through 2005; and was vice president and controller from 1998 to 2002. He also served as a director of Bemis Company, Inc. from 2006 until his retirement in 2011. Bemis Company, Inc. is one of the largest flexible packaging companies in the Americas and a major manufacturer of pressure sensitive materials used in labels, decorating and signage.

Table of Contents

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

GOVERNANCE OF OUR COMPANY

The Board of Directors

Our business is managed under the direction and oversight of the Board of Directors, who are elected by the stockholders. Directors meet their responsibilities by participating in meetings of the Board of Directors and Board Committees on which they sit, through communication with our Executive Chairman and our Chief Executive Officer and other officers and employees, by consulting with our independent registered public accounting firm and other third parties, by reviewing materials provided to them, and by visiting our offices and plants. During 2012, the Board held six regular meetings. The Committees of the Board of Directors held a total of 31 meetings, including eight meetings that were conducted telephonically. All directors attended at least 75% of the meetings of the Board and Committees on which they served during 2012. Although we have no formal policy on director attendance, all directors attended our 2012 Annual Meeting of Stockholders.

The non-management directors of the Board met in executive session without management present six times in 2012. The lead director who presides at such meetings rotates on an annual basis among the chairpersons of the following Committees in the following order: Nominating and Governance Committee, Audit Committee, Personnel and Compensation Committee and Investment Policy Committee. The lead director from April 2012 to April 2013 was Ronald D. Brown, the Chairperson of the Personnel and Compensation Committee. For 2013, the Nominating and Governance Committee designated Bruce M. Smith, Chair of the Investment Policy Committee, as the lead director from April 2013 to April 2014. Any party wishing to communicate with the lead director may send correspondence to the Lead Director, c/o James F. Stern, Corporate Secretary, A. O. Smith Corporation, 11270 West Park Place, P.O. Box 245008, Milwaukee, Wisconsin 53224-9508.

Director Independence and Financial Literacy. The Smith Family Voting Trust has the power to elect a majority of our Class A Directors, who make up a majority of the Board. As of December 31, 2012, the Smith family directly or beneficially owned 94.91% of Class A Common Stock and therefore 94.91% of voting power with respect to the election of the Class A Directors. Since the Board is composed of six Class A Directors and four Common Stock Directors, the Smith Family Voting Trust effectively exercises control over voting power for the election of our directors, and therefore, we are a controlled company under the New York Stock Exchange (NYSE) rules. As a controlled company, under NYSE rules, we may choose to not have a majority of independent directors or compensation or governance committees consisting solely of independent directors. Notwithstanding our status as a controlled company, the Board has not elected to exercise the controlled company exemption in any respect because, as described below, we have a Board in which a majority of our members consist of independent directors, and all members of the Personnel and Compensation and Nominating and Governance Committees are independent.

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

Table of Contents

evaluated any other legal, accounting and family relationships between directors and us. In particular, the Committee and the Board considered that director Bruce M. Smith s brother, Roger S. Smith, has been a long-standing employee in a non-executive capacity. Roger Smith s employment preceded Bruce M. Smith s election to the Board by more than ten years and he is subject to the same terms and conditions of employment as other salaried employees. The Committee and the Board also considered that Bruce M. Smith serves as Chairman of the Board of Managers of Smith Investment Company, LLC and, until May 31, 2012, had been its chief executive officer. Smith Investment Company LLC purchased the company s commercial paper at various times in 2012. These were arm s length transactions handled directly by an independent third party offering such commercial paper to the public without the knowledge or approval of our company as to specific purchases, which were on terms identical to other purchasers. During 2012, Smith Investment Company LLC held an average of approximately \$6.4 million in commercial paper per month until it sold all such commercial paper in December, 2012, and earned less than \$86,000 in interest on such commercial paper during 2012. During 2012, we provided office space, group insurance coverage and other miscellaneous services to Smith Investment Company LLC, for which we have been reimbursed \$21,936. The Committee and the Board also considered benefits Bruce M. Smith may have received as a result of the April 22, 2009 merger of SICO with our company and noted that the automatic independence disqualification of Mr. Bruce M. Smith under NYSE rules related to that transaction no longer applied since it occurred over three years ago. The Committee and the Board concluded that each of the foregoing relationships was not a material relationship for governance purposes and did not affect Mr. Bruce M. Smith s independence.

The Board and the Committee also considered that Robert J. O Toole, who retired as a director of our company at the April, 2012 Annual Meeting of Stockholders, is a director of Factory Mutual Insurance Company, to which we pay certain insurance premiums. The Committee and Board determined that this relationship was not material for governance purposes and did not affect the independence of Mr. O Toole.

Further, the Board and the Committee considered that Ronald D. Brown is a director of Zep, Inc. from which our manufacturing facilities purchase certain cleaning supplies in arm s length transactions, and a managing director of Taft Business Consulting, LLC, which is affiliated with the law firm of Taft, Stettinius & Hollister, LLP, which defended one lawsuit on our behalf until its dismissal in 2012. The Committee and Board determined that these relationships were immaterial for governance purposes and did not affect the independence of Mr. Brown.

The Board has determined that Messrs. Brown, Current, Greubel, O Toole, Sandoval, Bruce M. Smith, Mark D. Smith and Wulf and Ms. Wolf meet the NYSE independence requirements. Messrs. Jones and Rajendra are considered management directors by virtue of their current positions as executive officers of our company.

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

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

Table of Contents

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

c/o James F. Stern, Corporate Secretary

A. O. Smith Corporation

11270 West Park Place

P.O. Box 245008

Milwaukee, WI 53224-9508

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

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

Procedure for Review of Related Party Transactions. Potential conflicts of interest must be approved in advance, including related party transactions reportable under SEC rules, or related to the Smith family, in accordance with our Corporate Governance Guidelines. We have a detailed code of conduct, the A. O. Smith Corporation Guiding Principles, which applies to all employees, officers and directors, and specifically addresses conflicts of interest. There has been no waiver of the code of conduct, requested or granted, for any directors or officers. Further, the Corporate Governance Guidelines provide the procedure for review of related party transactions reportable under SEC rules, with approval by the Nominating and Governance Committee required if any such transaction involves a director, executive officer, or his/her immediate family members.

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

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

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

Board Committees

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

Audit Committee. The Audit Committee consists of four members who meet the independence and financial literacy requirements of the NYSE and the SEC. The Audit Committee s duties include appointing the firm that will act as our independent registered public accounting firm. The Audit Committee s duties and responsibilities are set forth in its Charter, which has been approved by the Board of Directors and is available on our website. The Board of Directors has determined that Ms. Wolf and Mr. Wulf qualify as audit committee financial experts as defined by the SEC. The Audit Committee met 12 times during 2012, with seven of those meetings being telephonic. The Report of the Audit Committee is included as part of this Proxy Statement.

Personnel and Compensation Committee. The Personnel and Compensation Committee is responsible for establishing and administering our compensation and benefit plans for officers, executives and management employees, including the determination of eligibility for participation in such plans. It determines the compensation to be paid to officers and certain other selected executives, and evaluates the performance of the Chairman and Chief Executive Officer in light of established goals and objectives. Effective January 1, 2013, the positions of Chairman and Chief Executive Officer were separated. The Committee will evaluate the performance of both the Executive Chairman and the Chief Executive Officer. As it deems appropriate, the Committee may retain independent consultants to provide recommendations as to executive compensation. The Committee also directs the Senior Vice President Human Resources and Public Affairs to prepare computations for its consideration, and considers recommendations of the Chief Executive Officer as to compensation of executives other than the Chief Executive Officer. The Personnel and Compensation Committee s duties and responsibilities are set forth in its Charter, which has been approved by the Board and is available on our website. The Committee consists of four directors, all of whom are independent under NYSE rules. The Committee held four meetings during 2012. The Personnel and Compensation Committee Report is included as part of this Proxy Statement.

Investment Policy Committee. The Investment Policy Committee is responsible for establishing investment policy and certain other matters for all of our qualified retirement plans. The responsibilities and duties of the Investment Policy Committee are set forth in its Charter, which has been approved by the Board and is available on our website. The Committee consists of three members. The Investment Policy Committee held four meetings during 2012.

Nominating and Governance Committee. The Nominating and Governance Committee oversees our governance processes and procedures, assists the Board in identifying qualified candidates for election as Board members, and establishes and periodically reviews criteria for selection of directors. This Committee reviews our company s and the Board Committees structure to ensure appropriate oversight of risk. Further, the Committee provides direction to the Board as to the independence, financial literacy and financial expertise of directors, and the composition of the Board and its Committees. As part of its responsibilities, the Committee is responsible for reviewing and making recommendations to the Board as to director compensation. The responsibilities and duties of the Nominating and Governance Committee are set forth in its Charter, which has been approved by the Board and is available on our website. The Committee consists of four members, all of whom are independent under the NYSE rules. The Nominating and Governance Committee met five times during 2012. The Report of the Nominating and Governance Committee is included as part of this Proxy Statement.

Table of Contents

The table below shows Committee membership and the number of meetings of the full Board and each Committee in 2012.

Name	Board	Audit	Personnel and Compensation	Investment Policy	Nominating and Governance
Ronald D. Brown	X		Chair		X
Gloster B. Current, Jr.	X	X			
William P. Greubel	X		X		Chair
Paul W. Jones	Chair			X	
Ajita G. Rajendra	X			X	
Mathias F. Sandoval	X		X		X
Bruce M. Smith	X		X	Chair	X
Mark D. Smith	X	X			
Idelle K. Wolf	X	X			
Gene C. Wulf	X	Chair			
Number of Meetings 2012	6	12	4	4	5

Our Leadership Structure

Since 2005, our company has been led by Paul W. Jones, who has served as our Chairman and Chief Executive Officer. Our company historically has employed this leadership structure, with our Chief Executive Officer also serving as Chairman of the Board. We believe this structure has served us well for many years, providing a single strong leader for our company.

Effective January 1, 2013, we split the positions of Chairman and Chief Executive Officer. At that time, we promoted Ajita G. Rajendra to Chief Executive Officer and Paul W. Jones retained the role of Executive Chairman. We implemented this leadership structure as part of our planned succession of Mr. Jones. We believe this structure ensures an orderly transition of our company leadership, which benefits our stockholders, customers, employees, business partners and other key stakeholders.

While we recognize that the Executive Chairman position is held by an executive officer, we believe that the members of our Board and the four standing Board Committees provide appropriate oversight. In this regard, the Audit Committee oversees the accounting and financial reporting processes, as well as risk, legal and compliance matters. The Personnel and Compensation Committee oversees the annual performance of our Chairman and Chief Executive Officer, as well as our executive compensation program. Further, effective January 1, 2013, the Personnel and Compensation Committee will oversee the performance of both the Executive Chairman and the Chief Executive Officer. The Nominating and Governance Committee monitors matters such as the composition of the Board and its committees, board performance and best practices in corporate governance. The Investment Policy Committee oversees our investments with respect to benefit plans. Each Committee is led by a chairperson other than the Chairman and Chief Executive Officer and, as discussed in more detail in this proxy, the entire Board of Directors is actively involved in overseeing our risk management. All together, we believe this framework strikes a sound balance with appropriate oversight.

We also have a lead director, who is an independent director and presides at meetings of all non-management directors in executive session. These meetings generally are held in conjunction with every regular Board meeting. In 2012, each Board meeting included a non-management directors session. This allows directors to speak candidly on any matter of interest, without the Chief Executive Officer or other managers present. In accordance with our

Table of Contents

Corporate Governance Guidelines, the role of lead director rotates on an annual basis, as opposed to a meeting-by-meeting rotation like some companies, to provide continuity in director oversight. We believe this structure provides consistent and effective oversight of our management and our company.

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

Consideration of Risk

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

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

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

We benchmark our compensation and benefits packages at all levels of the organization no less than every other year. Base pay, bonus targets and long-term incentives are targeted to market median for each position. Most exempt salaried positions are eligible for participation in bonus programs. For employees associated with our World Headquarters and Corporate Technology Center, annual incentive programs are based upon attainment of the same Return on Equity targets as our executives. Annual incentive programs at our business segments are based upon attainment of financial and strategic objectives established and approved annually. A limited number of key managers are eligible to participate in a long-term incentive program that awards stock options and/or restricted stock units in varying amounts based upon position and market comparisons. However, all awards are subject to at least three-year vesting periods. We feel this combination of base salary, bonus plans tied to critical financial measurements and long-term incentives with three-year vesting periods is balanced and serves to motivate our employees to accomplish our company objectives and retain key employees while avoiding unreasonable risk taking.

DIRECTOR COMPENSATION

Name[1]	Fees Earned or Paid in Cash ($)[2]	Stock Awards ($)[3 4]	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)[5]	Total ($)
Ronald D. Brown	$ 95,000	$ 93,051					$ 188,051
Gloster B. Current, Jr.	71,500	93,051					164,551
William P. Greubel	85,500	93,051					178,551
Robert J. O Toole[6]	24,875						24,875
Mathias F. Sandoval	73,500	93,051					166,551
Bruce M. Smith	86,500	93,051					179,551
Mark D. Smith	71,500	93,051					164,551
Idelle K. Wolf	71,500	93,051					164,551
Gene C. Wulf	81,500	93,051					174,551

1 Messrs. Jones and Rajendra, as employee directors, receive no compensation for their service as directors.

2 Includes amounts earned during 2012, even if deferred.

3 Reflects the grant date fair value of stock awards calculated in accordance with FASB ASC Topic 718. Directors receive a stock award of Common Stock as part of their annual retainer. On April 16, 2012, each director received a stock award worth $90,000, or 2,035 shares valued at $44.24 per share, which was the average of the high and low prices on the grant date rounded up to the next whole share. In July 2012, the value of stock awarded to each director increased to $94,000. As a result of this midyear change, each director received an additional stock award worth $4,000, prorated for the nine-month period from July 2012 to April 2013, or 62 shares valued at $48.76 per share, which was the average of the high and low prices on the grant date, July 9, 2012, rounded up to the next whole share. Directors may choose to defer receipt of this stock, in which case they are awarded restricted stock units. Mr. Brown has deferred his receipt of 6,892 shares until his separation from service as a director; Mr. Current has deferred his receipt of 11,976 shares until his separation from service as a director; Mr. Greubel has deferred his receipt of 19,669 shares until January 1, 2014; Mr. Sandoval has deferred his receipt of 5,493 shares until his separation from service as a director; Mr. Bruce Smith has deferred his receipt of 9,181 shares until April 1, 2014; 1,932 shares until April 1, 2019, and 11,887 shares until his separation from service as a director; and Ms. Wolf has deferred her receipt of 2,122 shares until her separation from service as a director. Deferred stock holdings include dividends on deferred stock which are paid in the form of restricted stock units.

4 Each director had as of December 31, 2012, the following aggregate number of shares in connection with service as a director: Mr. Brown, 24,866; Mr. Current, 19,006; Mr. Greubel, 19,669; Mr. Sandoval, 5,493; Mr. Bruce Smith, 27,143; Mr. Mark Smith, 23,680; Ms. Wolf, 19,952; and Mr. Wulf, 22,095. Please see the Security Ownership of Directors and Management Table for additional information.

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

6 Mr. O Toole retired as a director of our company at the 2012 Annual Meeting of Stockholders.

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

In 2012, the Committee reviewed its overall director compensation program in light of the responsibilities and time commitments expected of directors. As part of this process, the Committee considered a Towers Watson assessment of director compensation trends and other information concerning director compensation. After considering this information and the responsibilities of Board and Committee members, the Committee recommended and the Board approved in July 2012 an increase in the cash annual retainer for Board members from

Table of Contents

$42,500 to $47,500 and an increase in the stock retainer from $90,000 to $94,000, to reflect the time and responsibility required of directors fulfilling their responsibilities. The increase in cash retainer was effective April 2012; the increase in stock retainer was prorated as of July 2012. In addition, meeting fees, except for the Investment Policy Committee, increased from $1,500 to $2,500 per meeting and telephonic meeting fees increased from $500 to $1,000. Investment Policy Committee meeting fees decreased from $3,000 to $2,500 per meeting to be consistent with other committees and to reflect the modified structure for such meetings. Finally, the orientation fee for new directors increased from $1,500 to $2,500.

After such changes, directors receive a cash annual retainer, paid quarterly, in the amount of $47,500, and an award of shares of Common Stock with a market value of $94,000 on the date of the award. The lead director receives an annual retainer of $20,000. Directors receive $2,500 for attendance at each Board meeting and the annual stockholders meeting, plus expenses, and $1,000 for each telephonic Board and Committee meeting. Each Personnel and Compensation Committee, Nominating and Governance Committee and Investment Policy Committee member receives an annual retainer of $3,000, with the chairperson of each receiving $10,000; Committee members also receive $2,500 per meeting, plus expenses. Each Audit Committee member receives an annual retainer of $5,000, with the chairperson receiving an annual retainer of $15,000; Committee members also receive $2,500 per meeting, plus expenses. Directors who are our employees are not compensated for service as directors or Committee members or for attendance at Board or Committee meetings.

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

The stock ownership requirement for directors is five times the cash component of the annual retainer fee. Each director is required to acquire beneficial ownership of A. O. Smith Corporation Common Stock having an aggregate value equal to not less than five times the cash component of the annual retainer fee paid to the director within five years of (a) July 12, 2010 (policy effective date), or (b) his or her election as a new director, whichever is longer. All directors have met this requirement.

Certain directors have elected to defer the payment of their fees and receipt of Common Stock shares under the A. O. Smith Nonqualified Deferred Compensation Plan (the Deferred Compensation Plan). The Deferred Compensation Plan allows directors to defer all or a portion (not less than 50%) of their fees until a later date, but not later than the year in which age 71 is attained. Payments can be made in a lump sum or in not more than ten annual installments. Under this Plan, Ms. Wolf, Mr. Current and Mr. Sandoval each deferred payment of certain director fees. This is handled as a bookkeeping entry, with gains and losses credited to the director s account each month based on the director s crediting election. The crediting election is used to designate the investment fund(s) as the basis for calculating the rate of return equivalent for the director s account. The current funds available for a crediting election are: American Century VP Mid Cap Value Fund, Templeton Foreign Securities Fund, Vanguard VIF Balanced Fund, Janus Aspen Enterprise Fund, MFS VIT Growth Fund, Vanguard VIF Equity Index Fund, Delaware VIP Small Cap Value Fund, Edge Asset Management Equity Income Fund, Principal Global Investors Money Market Fund, PIMCO VIT Total Return Fund, Principal LifeTime 2010 Fund, Principal LifeTime 2020 Fund, Principal LifeTime 2030 Fund, Principal LifeTime 2040 Fund, Principal LifeTime 2050 Fund, Principal LifeTime Strategic Income Fund, and A. O. Smith Stable Value Fund. Ronald D. Brown, Gloster B. Current, Jr., William P. Greubel, Mathias F. Sandoval, Bruce M. Smith, and Idelle K. Wolf have deferred receipt of their stock awards, which consequently are treated as restricted stock units. Dividends on stock which has been deferred as restricted stock units are also received in the form of restricted stock units based on the average of the high and low price of our Common Stock on the date of the dividend.

Table of Contents

STOCK OWNERSHIP

Security Ownership of Directors and Management

The following table shows, as of December 31, 2012, the Class A Common Stock and Common Stock of our company and Common Stock options exercisable on or before February 28, 2013, beneficially owned by each director, each nominee for director, each named executive officer in the Summary Compensation Table and by all directors and executive officers as a group.

Name	Class A Common Stock[1 2]	Percent of Class A Common Stock	Common Stock[1,2]	Restricted Stock Units	Options Exercisable Within 60 Days	Percent of Common Stock
Ronald D. Brown	0	*	17,974	6,892	0	*
Gloster B. Current, Jr.	0	*	7,030	11,976	0	*
William P. Greubel	0	*	0	19,669	0	*
Paul W. Jones	0	*	149,944	74,200	74,400	*
John J. Kita	0	*	28,332	8,700	9,667	*
Mark A. Petrarca	0	*	24,122	9,400	9,900	*
Ajita G. Rajendra	0	*	76,246	19,450	63,717	*
Mathias F. Sandoval	0	*	0	5,493	0	*
Bruce M. Smith	108,891[3]	1.64%	17,695[4]	23,170	0	*
Mark D. Smith	60,213[5]	*	33,295[6]	0	0	*
James F. Stern	0	*	30,386	11,600	30,134	*
Idelle K. Wolf	0	*	17,830	2,122	0	*
Gene C. Wulf	0	*	22,095	0	0	*
All 20 Directors, Nominees and Executive Officers as a Group	169,104	2.55%	469,690	221,142	250,588	2.37%

* Represents less than one percent.

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

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

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

4 Included in this total are 3,973 shares that have been deferred and 13,722 shares that are beneficially owned as a settler of a revocable family trust.

5 Included in this total are 59,294 shares beneficially owned as a settler of a revocable family trust and 919 shares beneficially owned because they are held by his spouse.

[6] Included in this total are 7,376 shares beneficially owned as a settler of a revocable family trust, 2,239 shares beneficially owned because they are held by his spouse and 23,680 shares held directly by Mark D. Smith.

Compliance with Section 16(a) of the

Securities Exchange Act

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

Based solely on our review of the copies of such forms we received and written representations from certain reporting persons during fiscal year 2012, we believe that all filing requirements applicable to our executive officers, directors and greater than ten percent beneficial owners were met.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Philosophy

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

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

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

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

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

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

Our executive compensation package is designed to strike a balance between short-term cash compensation in the form of fixed salaries and variable annual incentive plans and long-term compensation in the form of cash-based performance units and equity awards with three-year vesting periods. For the Chief Executive Officer, approximately 20% of 2012 total target compensation was comprised of base salary, with the remaining 80% being variable compensation dependent on our company performance. The variable compensation was divided so that approximately 20% of total target compensation was attributable to annual incentive bonus and approximately 60% was long-term incentive compensation. The Committee approved a long-term incentive plan for 2012 which targeted 66% of the Chief Executive Officer s long-term incentives, or approximately 40% of total compensation, as equity-based awards.

For the Chief Operating Officer, approximately 25% of 2012 total target compensation was comprised of base salary, with the remaining 75% being variable compensation tied to company performance. The variable components were divided so that approximately 20% of his total target compensation was attributable to annual incentive bonus and approximately 55% was long term incentive compensation. Under the long term incentive plan approved by the Committee, approximately 66% of the long term incentives, or approximately 36% of his total compensation, were equity based.

For the other named executive officers, approximately 30-40% of total target compensation was comprised of base salary, with the remaining 60-70% being based on our company performance. Approximately 20-25% of total target compensation represents annual incentive bonus with roughly 40-45% attributable to long-term incentive compensation. The Committee targeted 66% of the long-term incentives, or approximately 25-30% of total target compensation, as equity-based awards for those other named executive officers.

Table of Contents

We believe this combination results in a competitive compensation package that provides an incentive for our executives to lead with a focus on short-term results, while positioning us for long-term sustained performance. With approximately 25-40% of their total compensation tied to equity awards, we believe the decisions of named executive officers are aligned with the best interests of our stockholders. We believe this combination of base pay, short- and long-term incentives supports our objectives of pay-for-performance, while mitigating the potential for undue risk taking because it ties a significant portion of the executive officer s compensation to sustained, long-term performance.

We believe our compensation philosophy is appropriate and aligned with stockholders, as demonstrated by our stock performance. The following represents our company s total stockholder return from 2008 to 2012. Despite a sluggish economic climate, we reported solid earnings per share from continuing operations of $3.49 for 2012. We maintained our focus on growing stockholder value and, as shown in the table below, our total stockholder return for 2008 to 2012 exceeded both the S&P 600 and that of the Russell 1000.

Comparison of Five-Year Cumulative Total Return

From December 31, 2007 to December 31, 2012

Assumes $100 Invested with Reinvestment of Dividends

Outside Consultants

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

The PCC has sole authority to approve the independent compensation consultants fees and terms of engagement on executive compensation matters. The PCC annually reviews its relationship with Towers Watson to ensure executive compensation consulting independence. The PCC reviewed the independence of Towers Watson

Table of Contents

and the individual representatives of Towers Watson who served as the PCC s advisors, considering the following specific factors: (i) other services provided to us by Towers Watson; (ii) fees paid by us to Towers Watson as a percentage of Towers Watson s total revenue; (iii) policies and procedures maintained by Towers Watson that are designed to prevent a conflict of interest; (iv) any business or personal relationships between the individual representatives of Towers Watson who advised the PCC and any member of the PCC; (v) any company common shares owned by the individual representatives; and (vi) any business or personal relationships between our executive officers and Towers Watson or the individual representatives.

We paid Towers Watson $77,202 of fees in 2012 for consulting services provided to the PCC regarding executive compensation matters. Management subscribes to various Towers Watson compensation databases and CompSource database analytical tools to benchmark non-executive positions. Additionally, management utilizes Towers Watson in various consulting capacities related to employee benefits programs. The following table sets forth the fees we paid to Towers Watson in 2012 for services other than those provided to the PCC.

Service	Fees
Management Compensation Surveys	$26,626
Benefits Consulting Services	$121,922 paid through credits against commissions earned as broker for life and disability group insurance plans. 2012 year-end credit balance: $246,584
Director Compensation Assessment and Consulting	$14,221

We have been advised that the Towers Watson advisors to the PCC are not involved in these other services and do not serve as account managers for Towers Watson in its capacity as advisors to the company overall. The PCC does not approve the services provided by Towers Watson outside the executive compensation advisory role to the PCC but is aware these services are provided.

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

Benchmarking

We endeavor to benchmark our executive compensation against similarly situated executives in comparably sized organizations. We believe we compete for executive resources with other non-financial institutions across multiple industrial segments. With that in mind, our consultants utilize broad-based, general industry salary surveys and regress their data to organizations with $2.5 billion in revenues. We believe market median is an appropriate target for our total compensation program. We attempt to design both short- and long-term incentives to produce rewards in excess of median market levels when company performance is better than target. The PCC authorized Towers Watson to perform a detailed analysis of our executive compensation levels in 2012, as we did in 2010 and 2011 because of market volatility.

As described below, the PCC asked Towers Watson to provide input on overall compensation and components of compensation for 13 executive positions, including each of the named executive officers, at the 50th percentile of market survey data. In addition to providing information regarding executive pay, Towers Watson provides information relating to director compensation and market trends.

Table of Contents

We utilize Towers Watson because we believe its survey resources ensure consistent and statistically valid data that is representative of the market in which we compete for executive talent. Its database includes a broad array of approximately 800 companies. After eliminating financial services, health care and energy services, it used approximately 400 companies in the database when benchmarking our positions. We did not rely on a specific sub-group of peer companies within that database. In working with Towers Watson, we played no role in selecting the individual companies for which the data was obtained.

To benchmark our company s executive positions for 2012 compensation, Towers Watson performed a regression analysis to reflect base pay levels of an organization with $2.5 billion in revenue. Its findings were reported to the PCC in October 2011. Target bonus and long-term incentives, which are gathered as a percentage of competitive base salary, were determined from all companies in Towers Watson s general industry database with revenues between $1 billion and $3 billion. Its comparison focused on overall compensation, as well as base salary, annual incentive bonus, equity awards and each of the other compensation elements discussed below. We believe its methodology provides appropriate comparisons by utilizing industrial companies of comparable size and referencing databases with comparable executive officer positions.

For 2012, the PCC targeted our overall compensation and benefits programs and each element of compensation at the median level of the surveyed companies. Since a number of variables can influence the relationship of an individual executive s pay components to the survey median data, the PCC considers a range of 90% to 110% of median to be appropriate when reviewing total compensation. Although the PCC attempts to have each component of compensation in this target range, the PCC puts greater emphasis on achieving the target at the total compensation level. Variables considered include, but are not limited to, education, position tenure, previous experience, level of performance, additional responsibilities, and, as appropriate, recruitment considerations.

For 2013, we continue to compare ourselves to the market median of other companies with revenues of $2.5 billion. Given our growth plans, our desire to maintain stability in our executive compensation programs and the modest differences in pay for companies with sales in the $2.0 billion to $2.5 billion range, the PCC chose to maintain the current comparisons when setting 2013 compensation.

During 2012, the PCC also retained Towers Watson to perform a study of compensation at similar companies transitioning their chief executive officer to executive chairman status and, in turn, promoting another officer to chief executive officer. The PCC considered this study when setting the 2013 compensation of Messrs. Jones and Rajendra in the positions of executive chairman and chief executive officer, respectively.

In addition, the PCC asked Towers Watson to study executive share ownership guidelines, and the methodology for establishing and monitoring ownership guidelines at companies generally. The PCC considered the study results in deciding to continue our current share ownership guidelines, as adjusted to reflect Mr. Rajendra s promotion to the position of chief executive officer in 2013.

Consideration of Stockholder Vote on Executive Compensation

At our 2012 annual meeting, our stockholders approved the compensation of our named executive officers by approximately 86% of the votes cast. The PCC took this into account and made few changes to our executive compensation program during 2012. The PCC also considered this vote when setting 2013 executive compensation levels and, as discussed below, made very few changes to the 2013 program, aside from compensation adjustments for Mr. Jones and Mr. Rajendra commensurate with their new positions as Executive Chairman and Chief Executive Officer, respectively.

Role of Executives in Compensation Decisions

The PCC annually reviews Chief Executive Officer performance and makes recommendations regarding Chief Executive Officer compensation for consideration by the full Board. The Chief Executive Officer is not present during these discussions and plays no role in determining his own compensation. Going forward, the PCC will review and make recommendations to the Board on the compensation of the Executive Chairman and Chief

Table of Contents

Executive Officer; neither will participate in these discussions. As it deems appropriate, the PCC utilizes the Towers Watson compensation data and directs the Senior Vice President Human Resources and Public Affairs to prepare computations for its consideration. With respect to other executives, the Chief Executive Officer annually reviews performance and makes compensation recommendations to the PCC. The Chief Executive Officer will review compensation data provided by Towers Watson, consult with the Senior Vice President Human Resources and Public Affairs, and consider the individual factors listed above before making his recommendations. The PCC can exercise its discretion to modify any recommended compensation to such executives.

Compensation Elements

The PCC takes a balanced approach to executive compensation. Our executive compensation package is comprised of several key components which are designed to work together to provide executives with a total compensation package that is competitive with industry norms. For 2012, total compensation included:

- Annual Base Salary
- Incentives
  - Short-Term annual incentive bonus
  - Long-Term restricted stock, stock options and performance units
- Benefits
  - Executive life insurance
  - Pension, 401(k) savings plan and post-retirement life insurance
  - Perquisite allowance

Base Salary

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

In reviewing and approving individual base salary adjustments for the named executive officers for 2012, the PCC relied upon salary data for comparable positions from the 2011 Towers Watson Executive Compensation Database, which was aged 2.5% to reflect anticipated market movement from the 2011 survey through year end 2012. Based upon its understanding of the market and other considerations, the PCC approved an increase of $30,000 or approximately 3% in base salary for Mr. Jones in 2012, and effective as of January 1, 2012, authorized increases of 3.0% for Messrs. Rajendra, Stern, and Petrarca, and 10% for Mr. Kita.

In reviewing 2013 base salaries at its December 2012 meeting, the PCC approved increases of approximately 3.1% for the named executive officers other than Messrs. Jones and Rajendra whose roles were slated to change effective January 1, 2013. In the case of Mr. Jones, whose duties are shifting to those of Executive Chairman, his base salary was reduced from $1,030,000 to $850,000, or an approximately 15% decrease. The base pay of Mr. Rajendra, who is assuming the position of Chief Executive Officer, increased from $576,800 to $850,000, or an approximately 47% increase. Based upon input from Towers Watson, we believe that the base salaries for our named executive officers are in the aggregate approximately 106% of market median, which is within our desired target range of 90% to 110%. Further, we anticipate market increase for base salaries to average 3% in 2013.

Name	2012 Base Salary	2012 Base Salary % to Market Median	January 1, 2013 Base Salary	2013 Base Salary % to Market Median
Paul W. Jones	$ 1,030,000	110%	$ 850,000	136%
John J. Kita	467,500	97%	482,500	99%
Ajita G. Rajendra	576,800	102%	850,000	91%
James F. Stern	436,300	113%	449,400	112%
Mark A. Petrarca	376,500	105%	387,800	106%

Executive Incentive Compensation

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

Annual Incentive Compensation and Discretionary Bonuses

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

The annual target incentive bonus typically is calculated as a percent of annual base pay as of January 1 of the performance year. The target percent for incentive compensation, like base salary, is determined through periodic benchmarking and review of the median level survey data provided by Towers Watson. Annual incentive compensation represents an at risk component of the executive compensation package. Actual incentive bonus amounts are dependent upon performance against specific measurements and through 2012, may vary from 0% to 200% of targeted amounts.

As a general principle, the portion of an executive s compensation tied to incentive compensation increases with the executive s level of responsibility. Thus, the Chief Executive Officer s annual incentive opportunity is greater than that of the other named executive officers. We targeted an annual incentive opportunity for the Chief Executive Officer at 100% of base pay in 2012 based upon Towers Watson survey data for comparably situated executives. As a result of his promotion to Chief Operating Officer, Mr. Rajendra s annual incentive target was increased to 75% for 2012. The relationship of our incentive targets to market median comparisons is illustrated in the following table. No other changes were made to executive annual incentive targets during 2012.

Name	2012 Target % of Base Salary	Target Incentive % to Market Median
Paul W. Jones	100	100
John J. Kita	67	102
Ajita G. Rajendra	75	105
James F. Stern	67	109
Mark A. Petrarca	57	102

24

Table of Contents

The 2012 annual incentive plan for all corporate executives was based on achieving a target financial measure of 11.36% Return on Equity, which the PCC established at its February, 2012 meeting based upon historical performance, its assessment of the 2012 business plan, the competitive environments and overall performance objectives. Return on Equity is calculated by dividing net income by stockholder equity, adjusted to exclude certain extraordinary and nonrecurring items, as provided for in the 2012 annual incentive plan. We use Return on Equity as the basis for determining annual incentive compensation for corporate executives because we believe it represents a sound measure of our performance that is easily recognized and readily used by investors and that links executive performance to stockholder interests.

Despite difficult economic conditions, including a lackluster new housing market in North America during 2012, we reported solid earnings and achieved 121.9% of the corporate Return on Equity incentive bonus target. Accordingly, the named executive officers were awarded incentive compensation bonuses set forth in the table below. In addition, the PCC may award discretionary bonuses it deems appropriate. During 2012, the PCC approved no discretionary bonuses.

2012 Annual Incentive Awards

Name	2012 Annual Incentive Award
Paul W. Jones	$ 1,256,000
John J. Kita	382,000
Ajita G. Rajendra	528,000
James F. Stern	357,000
Mark A. Petrarca	262,000

For 2013, the target annual incentive for Mr. Rajendra will increase to 100% of base pay, to reflect his promotion to the position of Chief Executive Officer. No other changes are anticipated for annual incentive targets to the other named executives.

Long-Term Incentive Compensation

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

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

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

Our 2012 long-term incentives (other than for Mr. Rajendra) were set at market median at the time of the February 2012 grant using data available to us in 2011, which was then aged to reflect an anticipated market increase. When 2012 awards were compared to market median in October 2012, the market median had increased more than anticipated at the time of the awards, resulting in some awards trailing the market median.

Table of Contents

Based upon the analyses provided by Towers Watson in October 2012, long-term incentive grants to our named executive officers were valued in the aggregate at 105% of market median. As noted in our Compensation Discussion and Analysis last year, Mr. Rajendra s overall long-term incentive target was well below the market median, due to his September, 2011 promotion to the position of Chief Operating Officer. No long-term incentive target adjustment was made in 2011 and, as we noted, the PCC decided it would take this into account when setting his 2012 grant. Consequently, to account for his below market 2011 long-term incentive target, Mr. Rajendra s 2012 long-term incentive target was set higher at 130% of market median. Excluding his award, the aggregate value of long-term incentive targets for the other four named executive officers in 2012 is approximately 99% of market median.

The following table shows long-term incentive grants to named executive officers in 2012:

Name	2012 Long-Term Incentives Target Value	% to October 2012 Market Median
Paul W. Jones	$ 3,000,000	109%
John J. Kita	650,000	95%
Ajita G. Rajendra	1,200,000	130%
James F. Stern	450,000	98%
Mark A. Petrarca	350,000	93%

Emphasis on Performance-Based Awards

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

Restricted stock units entitle the executive to receive a share of Common Stock for each unit when the restricted stock unit vests. Restricted stock units are time-based, but have a minimum performance threshold based on Average Annual Return on Equity that must be achieved in order to vest. The Average Return on Equity is calculated by dividing net income by stockholder equity, adjusted to exclude certain extraordinary and non-recurring items, averaged over the three year vesting period. We use Average Return on Equity because we believe it represents a sound measure of our performance that is easily recognized and readily used by investors and that links executive performance to stockholder interest over the three year performance period of the award. The value to the executive of restricted stock units is dependent upon the value of our Common Stock at the time of vesting. Restricted stock units are used to provide a combination of retention value and incremental performance incentives. For 2012, the minimum Average Annual Return on Equity for restrictive stock unit payouts was 5%.

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

The PCC elected to continue to use Return on Invested Capital as a percent of the Cost of Capital as the performance measure for performance units in 2012. We believe Return on Invested Capital represents a sound measure of how effectively executives manage capital. The goal is to achieve Return on Invested Capital as a percent of the Cost of Capital at or above 100%. Performing at this level means we are maintaining or creating additional stockholder value. We calculate Return on Invested Capital by taking net operating profit after taxes and dividing it by total capital. As with annual incentive compensation objectives, the PCC sets targets at levels that are difficult to achieve, but with the expectation they are attainable.

Performance units are valued at the time of grant at $100. Their value to the executive is dependent upon Return on Invested Capital performance as a percent of the Cost of Capital over a three-year vesting period. For

Table of Contents

2011, their value may be anywhere from 0% to 150% of target value based upon performance. In establishing the target, the PCC expressed its desire for our company to earn more than the Cost of Capital during the measurement period. Thus, to obtain 100% of the granted value, our average Return on Invested Capital during the three-year performance period (2011-2013) divided by the baseline Cost of Capital effective December 31, 2010, must equal 105%. That target is expressed as the following equation:

$$\frac{\text{Return on Invested Capital}}{\text{as \% of Cost of Capital}} = \frac{\text{Average Return on Invested Capital over three-year performance period}}{\text{Baseline Cost of Capital}} \times 105$$

The minimum performance level below which no payment is earned was established at 85% of the average Return on Invested Capital as a percent of the Cost of Capital. At the 85% threshold performance level, executives would earn 85% of the award value. Target value is achieved at 105% of Return on Invested Capital as a percent of the Cost of Capital. The performance level at which the maximum payment will be earned was set at 150% of target. If Return on Invested Capital as a percent of Cost of Capital during the performance period exceeds target by 50%, executives will earn 150% of the award value. This formula raised the performance threshold necessary to achieve a maximum award payout for the second consecutive year. Previously, executives earned the maximum payout if the Return on Invested Capital as a percent of the Cost of Capital during the performance period exceeded target by 25%.

In a continuing effort to ensure the program pays out above target only for exceptional performance, the PCC asked management to develop a new approach to setting minimum, target and maximum payout levels for Performance Units. After considering a variety of alternatives at its December 2011 meeting, the PCC decided to modify the approach to establishing the performance/payout relationship for the 2012 2014 Performance Units. Under the new approach, we must earn 100% Return on Invested Capital as a percent of the Cost of Capital during the measurement period in order for executives to achieve a minimum payout under the plan. At 100% performance, executives will earn 50% of their target value. Target value payouts will be earned at 135% performance over the course of the measurement period and a maximum payout of 200% of target will be earned should we return 269% Return on Invested Capital as a percent of the Cost of Capital between January 1, 2012, and December 31, 2014. This new methodology significantly raises the bar for payouts at all levels under the plan.

ROIC Achieved as a % of Cost of Capital	**2011 Plan Payout**	**2012 Present Plan Payout**
85%	85% - Minimum	
100%		50% - Minimum
105%	100% - Target	
135%		100% - Target
150%	150% Maximum	
269%		200% - Maximum

Through December 2012, which includes one year of the three-year performance period, the performance units granted in February 2012 had an estimated value of approximately 150% of their target value. Through December 2012, which includes two years of the three-year performance period, the performance units granted in February 2011 had an estimated value of approximately 150% of their target value.

At target, the combined value of the three components of executive long-term incentives (stock options, restricted stock units and performance awards) should represent market median long-term incentive awards consistent with the Towers Watson survey. Based upon the PCC s October 2012 analysis, target long-term incentives for our named executive officers compared to market median as reflected on the table on page 25.

Effective with his 2013 Grant, the PCC determined that in his new role of Executive Chairman, Mr. Jones long-term incentive would consist of 50% restricted stock units and 50% stock options. He was not granted performance units in 2013.

Table of Contents

The PCC made no 2013 changes with respect to long-term incentives for the other named executive officers.

Timing of Awards

Long-term incentive grants are awarded annually in February, shortly after earnings are released for the prior year. The PCC and Board reserve the right to grant equity to new hires at the time of their hire in order to align them as quickly as possible to stockholder interests and to make equity adjustments at its discretion if circumstances warrant.

Payout of 2010-2012 Performance Awards

Performance units awarded in February 2010 for the period 2010-2012 were paid in February 2013. These awards were based upon the Return on Invested Capital as a percent of the Cost of Capital for the three-year period (2010-2012). The units originally were valued at $100 per share. Based upon our performance during the measurement period, our ROIC exceeded the Cost of Capital by over 55%, which resulted in the units being paid out at $150 per share.

Share Ownership Guidelines

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

Executive	Guideline (Multiple of base salary)
Paul W. Jones	5X
John J. Kita	3X
Ajita G. Rajendra	5X
James F. Stern	3X
Mark A. Petrarca	3X

Mr. Rajendra s share ownership guideline increased to five times his base salary effective January 1, 2013, as reflected above, when he assumed the position of Chief Executive Officer.

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

Consideration of Risk in Executive Compensation Plans

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

Table of Contents

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

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

In 2012, the PCC reviewed the company s annual and long-term incentive plans at the PCC s July 2012 meeting. As a result of its review the PCC concluded:

1. All risks identified in a 2011 risk assessment process conducted by Towers Watson were discussed and/or addressed to the satisfaction of the PCC; and

2. No plan changes were implemented in 2012 that would affect the existing risk profile of any of the plans.

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

Executive Life Insurance

The A. O. Smith Executive Life Insurance Plan is a program intended to provide income security for a named beneficiary in the event of death. The plan generally provides a market-competitive life insurance benefit equal to three times the executive s annual base salary during employment and one times the annual base salary after retirement.

Executive Pension

We maintain a qualified defined benefit plan, the A. O. Smith Retirement Plan, for all eligible employees. In addition, we provide a supplemental executive pension program intended to provide income continuation for an executive at the time of retirement. The plans are consistent with our philosophy of providing competitive retirement benefits for all employees in order to attract and retain critical talent, as well as ensure a secure retirement for employees who contributed to our success over a sustained period of time. A detailed discussion of terms of the plans follows the Pension Benefits Table.

Effective January 1, 2010, we implemented a five-year sunset provision for our qualified defined benefit plan. As a result, participants will stop accruing benefits in the plan effective December 31, 2014. At its July 2010 meeting, the PCC decided to continue the existing supplemental executive retirement plan for all executives currently participating in the plan. Executives hired or promoted into a qualifying executive position after July 2010 do not participate in the existing supplemental executive retirement plan but will be eligible to participate in a defined contribution restoration plan that will provide a 3% contribution per year of pay (base plus bonus) based on pay above the Internal Revenue Service pay limit.

Defined Contribution Retirement Savings Plan

We have a 401(k) plan for all U.S. salaried employees, including the named executive officers. It provides a 100% match on the first 1% of employee savings and a 50% match on the next 5% of employee savings. We provide a company contribution under the A. O. Smith Nonqualified Deferred Compensation Plan to executives

Table of Contents

who contributed the maximum eligible tax-deferred employee contributions allowed by law to the 401(k) Plan. The amount of the company contribution to the executive under the Nonqualified Deferred Compensation Plan was the difference between the match the executive would have received without the restrictions placed on contributions to the 401(k) plan by the Internal Revenue Code and the actual match received under the 401(k) plan.

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

Executive Perquisites

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

Executive	Annual Allowance
Paul W. Jones	$60,000
John J. Kita	40,000
Ajita G. Rajendra	60,000
James F. Stern	40,000
Mark A. Petrarca	35,000

The perquisite allowance for Mr. Rajendra was increased from $40,000 to $60,000 to reflect his position as Chief Executive Officer, effective January 1, 2013.

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

Executive Agreements

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

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

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

Tax Considerations

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

Table of Contents

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

Executive Compensation Reimbursement Policy

We frequently review our executive compensation philosophy and objectives to help ensure that we comply with high standards of good governance while serving the interests of our stockholders. We adjust and revise our executive compensation programs when appropriate to achieve these goals. As an example, beginning in year 2011, the PCC implemented a requirement that executive officers who receive payments of performance-based awards (annual or long-term incentive awards, stock-based awards, and any other form of cash or equity compensation other than salary) must, upon request of the PCC, reimburse us for those payments where, (1) the payments were based on the achievement of certain financial results during a specified performance period; (2) the financial results were subsequently subject to a material restatement; and (3) the restatement resulted from material noncompliance with financial reporting requirements under applicable laws. In those circumstances, we may obtain reimbursement of any amount by which the payment of the award to the executive officer exceeds the lower payment that would otherwise have been made to the executive officer based on the restated financial results. We will not seek reimbursement of payments of awards where the payment was made more than three years before the occurrence of the restatement or where the restatement applies to a period where the executive officer was not an executive officer of our company.

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

Table of Contents

SUMMARY COMPENSATION TABLE

The Summary Compensation Table reflects information concerning compensation awarded to, earned by or paid to our chief executive officer, chief financial officer and other named executive officers during fiscal years 2012, 2011, and 2010.

ve for Nucor in 2008 for financial assets and liabilities and effective for non-financial assets and liabilities in 2009. The implementation of SFAS 157 for financial assets and liab

9

The following table summarizes information regarding Nucor's financial assets and financial liabilities that are measured at fair value as of June 28, 2008 (in thousands):

		Fair Value Measurements at Reporting Date Using		
Description	Carrying Amount in Consolidated Balance Sheet	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 1,688,772	$ 1,688,772	$ -	$ -
Derivatives	152,577	-	152,577	-
	$ 1,841,349	$ 1,688,772	$ 152,577	$ -

Nucor uses derivatives from time to time to mitigate the effect of natural gas cost fluctuations, foreign currency fluctuations, interest rate movements, and price fluctuations of aluminum and copper purchased for resale to its customers. Fair value measurements for Nucor's cash equivalents are classified under Level 1 because such measurements are based on quoted market prices in active markets for identical assets. Fair value measurements for Nucor's derivatives are classified under Level 2 because such measurements are based on published market prices for similar assets or are estimated based on observable inputs such as interest rates, yield curves, spot and future commodity prices and spot and future exchange rates.

12. CONTINGENCIES: Nucor is subject to environmental laws and regulations established by federal, state and local authorities and makes provision for the estimated costs related to compliance. Of the undiscounted total of $29.7 million of accrued environmental costs at June 28, 2008 ($19.9 million at December 31, 2007), $10.7 million was classified in accrued expenses and other current liabilities ($16.6 million at December 31, 2007) and $19.0 million was classified in deferred credits and other liabilities ($3.3 million at December 31, 2007).

Other contingent liabilities with respect to product warranties, legal proceedings and other matters arise in the normal course of business. In the opinion of management, no such matters exist which would have a material effect on the consolidated financial statements.

13. STOCK-BASED COMPENSATION: *Stock Options* - A summary of activity under Nucor's stock option plans for the six months ended June 28, 2008 is as follows (in thousands, except year and per share amounts):

	Shares	Weighted - Average Exercise Price	Weighted - Average Remaining Contractual Life	Aggregate Intrinsic Value
Number of shares under option:				
Outstanding at beginning of year	1,852	$ 20.37		
Exercised	(421)	20.51		$ 20,930
Canceled	-	-		
	1,431	$ 20.33	2.8 Years	$ 78,027

Outstanding at June 28, 2008						
Options exercisable at June 28, 2008	**1,431**	**$**	**20.33**	**2.8 Years**	**$**	**78,027**

10

As of March 1, 2006 all outstanding options were vested; therefore, no compensation expense related to stock options was recorded in the first six months of 2008 or 2007. The amount of cash received from the exercise of stock options totaled $8.6 million and $2.5 million in the first half and second quarter of 2008, respectively.

***Restricted Stock Awards* - Nucor's Senior Officers Annual Incentive Plan (the "AIP") and Long-Term Incentive Plan (the "LTIP") authorize the award of shares of common stock to officers subject to certain conditions and restrictions. The LTIP provides for the award of shares of restricted common stock at the end of each LTIP performance measurement period at no cost to officers if certain financial performance goals are met during the period. One-third of the LTIP restricted stock award vests upon each of the first three anniversaries of the award date or, if earlier, upon the officer's attainment of age fifty-five while employed by Nucor. Although participants are entitled to cash dividends and may vote such awarded shares, the sale or transfer of such shares is limited during the restricted period.**

The AIP provides for the payment of annual cash incentive awards. An AIP participant may elect, however, to defer payment of up to one-half of an annual incentive award. In such event, the deferred AIP award is converted into common stock units and credited with a deferral incentive, in the form of additional common stock units, equal to 25% of the number of common stock units attributable to the deferred AIP award. Common stock units attributable to deferred AIP awards are fully vested. Common stock units credited as a deferral incentive vest upon the AIP participant's attainment of age fifty-five while employed by Nucor. Vested common stock units are paid to AIP participants in the form of shares of common stock following their termination of employment with Nucor.

A summary of Nucor's restricted stock activity under the AIP and LTIP for the first six months of 2008 is as follows (shares in thousands):

	Shares		Grant Date Fair Value
Restricted stock awards and units:			
Unvested at beginning of year	**479**	**$**	**51.93**
Granted	**280**		**67.33**
Vested	**(379)**		**53.85**
Canceled	**-**		**-**
Unvested at June 28, 2008	**380**	**$**	**61.37**
Shares reserved for future grants	**1,987**		

Compensation expense for common stock and common stock units awarded under the AIP and LTIP is recorded over the performance measurement and vesting periods based on the anticipated number and market value of shares of common stock and common stock units to be awarded. Compensation expense for anticipated awards based upon Nucor's financial performance, exclusive of amounts payable in cash, was $9.4 million and $9.0 million in the first half of 2008 and 2007, respectively, and was $5.1 million and $4.0 million in the second quarter of 2008 and 2007, respectively. At June 28, 2008, unrecognized compensation expense related to unvested restricted stock was $6.6 million, which is expected to be recognized over a weighted-average period of 1.8 years.

***Restricted Stock Units*: Nucor annually grants restricted stock units ("RSUs") to key employees, officers and non-employee directors. The RSUs typically vest and are converted to common stock in three equal installments on each of the first three anniversaries of the grant date. A portion of the RSUs awarded to senior officers vest upon the officer's retirement. Retirement, for purposes of vesting in these units only, means termination of employment with approval of the Compensation and Executive Development Committee after satisfying age and years of service requirements. RSUs granted to non-employee directors are fully vested on**

the grant date and are payable to the non-employee director in the form of common stock after the termination of the director's service on the board of directors.

RSUs granted to employees who are eligible for retirement on the date of grant or will become retirement-eligible prior to the end of the vesting term are expensed over the period through which the employee will become retirement-eligible since the awards vest upon retirement from the Company. Compensation expense for RSUs granted to employees who are not retirement-eligible is recognized on a straight-line basis over the vesting period. Cash dividend equivalents are paid to participants each quarter. Dividend equivalents paid on units expected to vest are recognized as a reduction in retained earnings.

The fair value of the RSUs is determined based on the closing stock price of Nucor's common stock on the day before the grant. A summary of Nucor's restricted stock unit activity for the first six months of 2008 is as follows (shares in thousands):

	Shares	Grant Date Fair Value
Restricted stock awards and units:		
Unvested at beginning of year	918	$ 60.82
Granted	679	74.80
Vested	(439)	64.39
Canceled	(3)	60.67
Unvested at June 28, 2008	1,155	$ 67.68
Shares reserved for future grants	17,007	

Compensation expense for RSUs was $21.7 million and $14.4 million in the first half of 2008 and 2007, respectively, and was $16.4 million and $11.8 million in the second quarter of 2008 and 2007, respectively. As of June 28, 2008, there was $68.9 million of total unrecognized compensation cost related to nonvested RSUs, which is expected to be recognized over a weighted-average period of 2.1 years.

14. EMPLOYEE BENEFIT PLAN: Nucor has a Profit Sharing and Retirement Savings Plan for qualified employees. Nucor's expense for these benefits was $156.1 million and $117.0 million in the first half of 2008 and 2007, respectively, and was $88.3 million and $54.3 million in the second quarter of 2008 and 2007, respectively.

15. INTEREST EXPENSE (INCOME): The components of net interest (income) expense are as follows (in thousands):

	Six Months (26 Weeks) Ended		Three Months (13 Weeks) Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Interest expense	$ 64,072	$ 26,243	$ 34,288	$ 15,701
Interest income	(18,993)	(30,426)	(7,554)	(10,722)
Interest expense (income), net	$ 45,079	$ (4,183)	$ 26,734	$ 4,979

16. INCOME TAXES: The Internal Revenue Service ("IRS") is currently examining Nucor's 2005 and 2006 federal income tax returns. Management believes that the Company has adequately provided for any adjustments that may arise from this audit. Nucor has substantially concluded U.S. federal income tax matters for years through 2004. The 2007 tax year is open to examination by the IRS. The tax years 2003 through 2007 remain open to examination by other major taxing jurisdictions to which Nucor is subject.

17. COMPREHENSIVE INCOME: The components of total comprehensive income are as follows (in thousands):

	Six Months (26 Weeks) Ended		Three Months (13 Weeks) Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net earnings	$ 990,508	$ 725,879	$ 580,754	$ 344,850
Net unrealized gain (loss) on hedging derivatives, net of income taxes	102,796	5,216	67,040	(6,700)
Reclassification adjustment for (gain) loss on settlement of hedging derivatives included in net income, net of income taxes	(7,066)	2,484	(7,249)	1,500
Foreign currency translation gain, net of income taxes	1,170	31,502	13,975	29,016
Other	-	3,208	-	-
Total comprehensive income	$ 1,087,408	$ 768,289	$ 654,520	$ 368,666

18. SEGMENTS: Nucor reports its results in the following segments: steel mills, steel products and raw materials. The steel mills segment includes carbon and alloy steel in sheet, bars, structural and plate. The steel products segment includes steel joists and joist girders, steel deck, fabricated concrete reinforcing steel, cold finish steel, steel fasteners, metal building systems, light gauge steel framing, steel grating and expanded metal, and wire and wire mesh. The raw materials segment includes DJJ, the scrap broker and processor that Nucor acquired on February 29, 2008; Nu-Iron Unlimited, a facility that produces direct reduced iron used by the steel mills; and certain equity method investments. The "All other" category primarily includes Novosteel S.A., a steel trading business of which Nucor owns 75%. The segments are consistent with the way Nucor manages its business, which is primarily based upon the similarity of the types of products produced and sold by each segment.

Interest expense, minority interests, other income, profit sharing expense and changes in the LIFO reserve and environmental accruals are shown under Corporate/eliminations. Corporate assets primarily include cash and cash equivalents, short-term investments, deferred income tax assets and investments in affiliates.

The company's results by segment were as follows (in thousands):

	Six Months (26 Weeks) Ended		Three Months (13 Weeks) Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net sales to external customers:				
Steel mills	$ 8,652,590	$ 6,609,410	$ 4,893,137	$ 3,336,156
Steel products	2,004,778	1,232,791	1,119,271	748,759
Raw materials	1,162,258	-	927,029	-
All other	245,242	94,794	151,162	83,195
	$ 12,064,868	$ 7,936,995	$ 7,090,599	$ 4,168,110
Intercompany sales:				
Steel mills	1,062,744	$ 575,766	$ 576,189	$ 320,614
Steel products	20,971	14,985	12,673	8,783
Raw materials	3,670,566	139,750	3,002,239	76,943
All other	2,191	11,336	1,849	11,055
Corporate/eliminations	(4,756,472)	(741,837)	(3,592,950)	(417,395)
	$ -	$ -	$ -	$ -
Earnings before income taxes:				
Steel mills	$ 1,839,866	$ 1,402,794	$ 1,040,582	$ 667,465
Steel products	150,449	120,748	100,263	71,223
Raw materials	132,200	(11,379)	115,624	(12,949)
All other	20,216	2,104	17,448	1,923
Corporate/eliminations	(643,782)	(391,886)	(397,815)	(194,948)
	$ 1,498,949	$ 1,122,381	$ 876,102	$ 532,714

	June 28, 2008	Dec. 31, 2007
Segment assets:		
Steel mills	$ 6,264,380	$ 5,134,277
Steel products	3,219,514	2,938,964
Raw materials	3,548,611	465,105
All other	187,547	182,840
Corporate/eliminations	1,772,404	1,104,936
	$ 14,992,456	$ 9,826,122

14

19. EARNINGS PER SHARE: The computations of basic and diluted net earnings per share are as follows (in thousands, except per share amounts):

	Six Months (26 Weeks) Ended		Three Months (13 Weeks) Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Basic net earnings per share:				
Basic net earnings	$ 990,508	$ 725,879	$ 580,754	$ 344,850
Average shares outstanding	293,291	301,168	298,262	301,302
Basic net earnings per share	$ 3.38	$ 2.41	$ 1.95	$ 1.14
Diluted net earnings per share:				
Diluted net earnings	$ 990,508	$ 725,879	$ 580,754	$ 344,850
Diluted average shares outstanding:				
Basic shares outstanding	293,291	301,168	298,262	301,302
Dilutive effect of stock options and other	1,784	2,238	1,580	2,028
	295,075	303,406	299,842	303,330
Diluted net earnings per share	$ 3.36	$ 2.39	$ 1.94	$ 1.14

20. SUBSEQUENT EVENT: In July 2008, Nucor completed the acquisition of 50% of the stock of Duferdofin - Nucor S.r.l., for the purchase price of €423.5 million (approximately $658 million). The company will operate from its current headquarters in San Zeno, Italy. Duferdofin - Nucor S.r.l. operates a steel melting and bloom/billet caster in San Zeno as well as rolling mills in Pallanzeno and Giammoro. This joint venture increases Nucor's international presence and enables the Company to serve the growing markets for structural shapes in Southern Europe and North Africa.

15

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements made in this quarterly report are forward-looking statements that involve risks and uncertainties. These forward-looking statements reflect the Company's best judgment based on current information, and although we base these statements on circumstances that we believe to be reasonable when made, there can be no assurance that future events will not affect the accuracy of such forward-looking information. As such, the forward-looking statements are not guarantees of future performance, and actual results may vary materially from the results and expectations discussed in this report. Factors that might cause the Company's actual results to differ materially from those anticipated in forward-looking statements include, but are not limited to: (1) the sensitivity of the results of our operations to volatility in steel prices and changes in the supply and cost of raw materials, including scrap steel; (2) availability and cost of electricity and natural gas; (3) market demand for steel products, which, in the case of many of our products, is driven by the level of non-residential construction activity in the U.S.; (4) competitive pressure on sales and pricing, including pressure from imports and substitute materials; (5) uncertainties surrounding the global economy, including excess world capacity for steel production and fluctuations in currency conversion rates; (6) U.S. and foreign trade policy affecting steel imports or exports; (7) significant changes in government regulations affecting environmental compliance; (8) the cyclical nature of the steel industry; (9) capital investments and their impact on our performance; and (10) our safety performance.

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements included elsewhere in this report, as well as the audited consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Nucor's Annual Report on Form 10-K for the year ended December 31, 2007.

Overview

Nucor and affiliates are manufacturers of steel products, with operating facilities primarily in the U.S. and Canada. The steel mills segment produces carbon and alloy steel in bars, beams, sheet and plate. The steel products segment produces steel joists and joist girders; steel deck; fabricated concrete reinforcing steel; cold finished steel; steel fasteners; metal building systems; light gauge steel framing; steel grating and expanded metal; and wire and wire mesh. The raw materials segment produces direct reduced iron used by the steel mills; brokers ferrous and nonferrous metals, pig iron and HBI/DRI; supplies ferro-alloys; and processes ferrous and nonferrous scrap. Nucor is North America's largest recycler.

In February 2008, Nucor completed its acquisition of the stock of SHV North America Corporation, which owns 100% of The David J. Joseph Company and related affiliates, for a purchase price of approximately $1.44 billion. DJJ now operates as a wholly owned subsidiary of Nucor Corporation and is headquartered in Cincinnati, Ohio. The principal activities of DJJ, which has been the broker of ferrous scrap to Nucor since 1969, include the operation of scrap recycling facilities (processing); brokerage services for scrap, ferro-alloys, pig iron and scrap substitutes; mill and industrial services; and rail and logistics services. DJJ has been included in Nucor's raw materials segment.

Since scrap is Nucor's largest single cost, the acquisition of DJJ provides an ideal growth platform for Nucor to expand our direct ownership in the steel scrap supply chain and further our raw materials strategy. In the second quarter of 2008, Nucor acquired substantially all the assets of Metal Recycling Services Inc. ("MRS") for approximately $57.0 million. Based in Monroe, North Carolina, MRS, which is managed by DJJ, operates a full-service processing facility and two feeder yards. In April 2008, DJJ acquired substantially all the assets of Galamba Metals Group, which will operate under the Advantage Metals Recycling, LLC ("AMR") name, for approximately $112.6 million. AMR operates 16 full-service scrap processing facilities in Kansas, Missouri and Arkansas. The acquisition of these scrap processing assets provide a partial hedge to our steel mills against

scrap market volatility.

Steel production was 11,874,000 tons in the first half of 2008, compared with 11,103,000 tons produced in the first half of 2007, an increase of 7%. Total steel shipments increased 9% to 12,068,000 tons in the first half of 2008, compared with 11,067,000 tons in last year's first half. Steel sales to outside customers increased 5% to 10,597,000 tons in the first half of 2008, compared with 10,119,000 tons in last year's first half. In March 2007 Nucor acquired a large customer, Harris Steel Group Inc. ("Harris"), causing a shift from outside sales tons to inside sales tons. If Nucor continues to acquire downstream businesses, the percentage of our steel production sold to inside customers may continue to increase.

In the steel products segment, steel joist production during the first half of 2008 was 272,000 tons, compared with 265,000 tons in the first half of 2007, an increase of 3%. Steel deck sales were 255,000 tons in the first half of 2008, compared with 232,000 tons in last year's first half, an increase of 10%. Cold finished steel sales increased 35% to 279,000 tons in the first half of 2008, compared with 206,000 tons in the first half of 2007. Sales of fabricated concrete reinforcing steel increased from 204,000 in the first half of 2007 to 411,000 tons in the first half of 2008.

The average utilization rates of all operating facilities in the steel mills, steel products and raw materials segments were approximately 94%, 75% and 87%, respectively, in the first half of 2008, compared with 88%, 77% and 76%, respectively, in the first half of 2007.

Results of Operations

Net Sales **Net sales to external customers by segment for the first six months and second quarter of 2008 and 2007 were as follows:**

	Six Months (26 Weeks) Ended			Three Months (13 Weeks) Ended		
	June 28, 2008	June 30, 2007	% Change	June 28, 2008	June 30, 2007	% Change
Steel mills	$ 8,652,590	$ 6,609,410	31%	$ 4,893,137	$ 3,336,156	47%
Steel products	2,004,778	1,232,791	63%	1,119,271	748,759	49%
Raw materials	1,162,258	-	-	927,029	-	-
All other	245,242	94,794	159%	151,162	83,195	82%
Net sales	$ 12,064,868	$ 7,936,995	52%	$ 7,090,599	$ 4,168,110	70%

Net sales for the first half of 2008 increased 52% from last year’s first half due to a 21% increase in average sales price per ton from $704 in the first half of 2007 to $850 in the first half of 2008 and a 26% increase in total tons shipped to outside customers.

The 31% increase in sales for the first six months of 2008 in the steel mills segment was primarily attributable to the $164 per ton (25%) increase in average realized prices from the same period last year. In addition, steel sales to outside customers increased 5% from the first half of 2007 to the first half of 2008.

The 63% increase in the steel products segment’s sales for the first half of the year resulted primarily from an increase of approximately 45% in shipments. The higher volume of shipments is mainly attributable to the acquisition of Harris in March 2007 and Magnatrax Corporation in August 2007. Subsequent to its acquisition by Nucor, Harris has continued to grow its rebar fabrication business by acquiring other rebar fabrication companies, which also contributed to the rise in shipments. The increased sales for this segment were also due to a 13% increase in average sales price per ton.

In the raw materials segment, approximately 76% of outside sales in the first half of 2008 were from the brokerage operations of DJJ and approximately 22% of the outside sales were from the scrap processing facilities. Prior to the acquisition of DJJ, there were no outside sales of raw materials.

The “All other” category includes Novosteel S. A., a steel trading business of which Nucor, through Harris, owns 75%. The 159% increase in sales for the first six months of 2008 over 2007 is due to Nucor owning the interest in Novosteel for six months in 2008 compared to approximately three months in 2007, combined with an increased sales price per ton.

Net sales for the second quarter of 2008 increased 70% from the second quarter of 2007. Average sales price per ton increased 24% from $742 in the second quarter of 2007 to $917 in the second quarter of 2008, while

total tons shipped to outside customers increased 38% over the same period last year. Net sales increased 43% from the first quarter of this year due to a 19% increase in average sales price per ton over the first quarter of 2008 and a 20% increase in total tons shipped to outside customers.

Net sales for the steel mills segment increased 47% over the second quarter of 2007 due to the $225 (33%) increase in the average sales price per ton. Steel sales to outside customers also increased 10% from 4,890,000 tons in the second quarter of 2007 to 5,394,000 tons in the second quarter of 2008.

The 49% increase in the steel products segment's sales for the second quarter was due to a 30% increase in shipments, primarily attributable to acquisitions, as well as a 15% increase in the average sales price per ton.

In the second quarter of 2008, approximately 78% of outside sales in the raw materials segment were from the brokerage operations of DJJ and approximately 21% of the outside sales were from the scrap processing facilities.

Gross Margins **For the first half of 2008, Nucor recorded gross margins of $2.11 billion (18%), compared to $1.54 billion (19%) in the first half of 2007. The year-over-year dollar increase was the result of increased average sales price per ton for most products, the 5% increase in steel shipments to outside customers and the significant acquisitions made by Nucor in the last 18 months. The decrease in our gross margin percentage was due principally to the following factors:**

- **The cost of raw materials, including scrap and energy, continued to escalate. In the steel mills segment, the average price of raw materials used increased approximately 43% from the first half of 2007 to the first half of 2008, primarily due to the increased cost of scrap, our main raw material. The average scrap and scrap substitute cost per ton used in the first half of 2008 was $396, an increase of 44% compared with $275 in the first half of 2007. Energy costs increased $5 per ton over the prior year period. In the steel products segment, the average price of raw materials used increased approximately 17% from the first half of 2007 to the first half of 2008.**
- **As a result of these increased raw material and energy costs, Nucor incurred a record LIFO charge of $283.0 million in the first half of 2008, compared with a charge of $91.0 million in the first half of 2007. (LIFO charges for interim periods are based on management's estimates of both inventory prices and quantities at year-end. The actual amounts will likely differ from these estimated amounts, and such differences may be significant.)**
- **DJJ's business of collecting and processing ferrous and non-ferrous materials for resale typically operates at lower margins than Nucor has historically experienced as a manufacturer of steel and steel products.**
- **Pre-operating and start-up costs of new facilities increased from $25.0 million in the first half of 2007 to $45.0 million in the first half of 2008. In 2008 and 2007, these costs primarily related to the HIsmelt project in Kwinana, Australia, the construction of the SBQ mill in Memphis, Tennessee, the start-up of our building systems facility in Brigham City, Utah and the Castrip® project in Blytheville, Arkansas.**

For the second quarter of 2008, Nucor recorded gross margins of $1.21 billion (17%), compared to $764.2 million (18%) in the second quarter of 2007. The year-over-year dollar increase was the result of increased average sales price per ton for most products, the 10% increase in steel shipments to outside customers and the significant acquisitions made by Nucor in the last 18 months. The decrease in our gross margin percentage was due principally to the following factors:

- **In the steel mills segment, the average price of raw materials used increased approximately 56% from the second quarter of 2007 to the second quarter of 2008, primarily due to the increased cost of scrap. The average scrap and scrap substitute cost per ton used was $456 in the second quarter of 2008, an increase of 57% compared with $291 in the second quarter of 2007. Energy costs increased $5 per ton over the prior year period. In the steel products segment, the average price of raw materials used increased approximately 32% from the second quarter of 2007 to the second quarter of 2008.**
- **Nucor incurred a record LIFO charge of $214.0 million in the second quarter of 2008, compared with a charge of $66.5 million in last year's second quarter. The LIFO expense in the second quarter of 2008 was greater than the total LIFO expense for all of 2007.**

- **DJJ's business of collecting and processing ferrous and non-ferrous materials for resale typically operates at lower margins than Nucor has historically experienced as a manufacturer of steel and steel products.**
- **Pre-operating and start-up costs of new facilities increased to $22.1 million in the second quarter of 2008, compared with $13.8 million in the second quarter of 2007.**

Nucor's raw material surcharge has helped offset the impact of significantly more volatile scrap prices and allowed us to purchase the scrap needed to fill our customers' orders.Changes in scrap prices are based on changes in the global supply and demand for scrap, which is tied to the global supply and demand for steel products. Demand for scrap and other raw materials has risen sharply in recent years in response to increased demand, both domestically and internationally, for a wide range of products made from steel without a corresponding increase in the global supply of those raw materials. Our surcharges are based upon changes in widely-available market indices for prices of scrap and other raw materials. We monitor those market indices closely and make adjustments as needed, but generally on a monthly basis, to the surcharges and sometimes directly to the selling prices, for our products. The majority of our steel sales are to spot market customers who place their orders each month based on their business needs and our pricing competitiveness compared with both domestic and global producers and trading companies. We also include in all of our contracts a method of adjusting prices on a monthly basis to reflect changes in scrap prices. Contract sales typically have a term ranging from six months to two years. Although there will always be a timing difference between changes in the prices we pay for raw materials and the adjustments we make, we believe that the surcharge mechanism, which our customers understand is a necessary response by us to the market forces of supply and demand for our raw materials, continues to be an effective means of maintaining our margins.

Marketing, Administrative and Other Expenses **The major components of marketing, administrative and other expenses are freight and profit sharing costs. Unit freight costs increased 11% in the first half of 2008 over the first half of 2007, and increased 16% from the second quarter of 2007 to the second quarter of 2008. Profit sharing costs, which are based upon and generally fluctuate with pre-tax earnings, increased approximately 34% in the first half of 2008 over the first half of 2007, and increased approximately 62% from the second quarter of 2007 to the second quarter of 2008. Profit sharing costs also fluctuate based on Nucor's achievement of certain financial performance goals, including comparisons of Nucor's financial performance to peers in the steel industry and to other high performing companies.**

Interest Expense (Income) **Net interest expense (income) for the first six months and second quarter of 2008 and 2007 was as follows:**

	Six Months (26 Weeks) Ended		Three Months (13 Weeks) Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Interest expense	$ 64,072	$ 26,243	$ 34,288	$ 15,701
Interest income	(18,993)	(30,426)	(7,554)	(10,722)
Interest expense (income), net	$ 45,079	$ (4,183)	$ 26,734	$ 4,979

Gross interest expense increased from the first half of 2007 to the first half of 2008 due to an increase in average debt outstanding of approximately 175% accompanied by an increase in average interest rates from 4.7% to 5.0%. Nucor has issued $2.3 billion in notes since the beginning of the fourth quarter of 2007. During the first six months of 2008, Nucor issued and repaid $800 million of commercial paper. The interest rates on the $2.3 billion in notes are higher than the rates on the majority of Nucor's pre-existing debt. Gross interest income decreased from the first half of 2007 to the first half of 2008 due to a 23% decrease in average investments combined with a decrease in the average interest rate earned on investments. Average investments decreased due to cash payments for acquisitions in 2007 and 2008 and repurchases of common stock during

2007. The decrease was partially offset near the end of the second quarter of 2008 by proceeds received from the issuance of stock and debt.

19

In the second quarter of 2008, gross interest expense increased over the prior year primarily due to the tripling of average debt outstanding. Gross interest income decreased mainly due to a decrease in the average interest rate earned on investments.

Minority Interests **Minority interests represent the income attributable to the minority partners of Nucor's joint ventures, primarily Nucor-Yamato Steel Company ("NYS"), Novosteel S.A., and Barker Steel Company, Inc., of which Nucor owns 51%, 75% and 90%, respectively. The six-month and quarter increases in minority interests were primarily attributable to the increased earnings of NYS, which are due to the strength of the structural steel market. Under the NYS partnership agreement, the minimum amount of cash to be distributed each year to the partners is the amount needed by each partner to pay applicable U.S. federal and state income taxes.**

Provision for Income Taxes **Nucor had an effective tax rate of 33.9% in the first six months of 2008 compared with 35.3% in the first six months of 2007. The effective tax rate in the second quarter of 2008 was 33.7% compared with 35.3% in the second quarter of 2007. The rate decrease was primarily due to an increase in the rate benefit from foreign operations. The IRS is currently examining Nucor's 2005 and 2006 federal income tax returns. Management believes that the company has adequately provided for any adjustments that may arise from this audit.**

Net Earnings and Return on Equity **Net earnings and earnings per share in the first half of 2008 increased 36% and 41%, respectively, to a record $990.5 million and $3.36 per diluted share, compared with $725.9 million and $2.39 per diluted share in the first half of 2007. Net earnings as a percentage of net sales were 8% and 9%, respectively, in the first half of 2008 and 2007. Return on average stockholders' equity was approximately 30.8% and 29.2% in the first half of 2008 and 2007, respectively.**

Net earnings and earnings per share in the second quarter of 2008 increased 68% and 70%, respectively, to a record $580.8 million and $1.94 per diluted share, compared with $344.9 million and $1.14 per diluted share in the second quarter of 2007. Net earnings as a percentage of net sales was 8% in both the second quarter of 2008 and 2007.

Outlook **The outlook for the third quarter remains positive, as we expect continued strength in our sheet, plate, beam and bar businesses due to the solid global demand for steel. Although our downstream businesses will be challenged by rising steel prices, we expect continued good results from this segment.**

Nucor's margins and overall profitability are affected by the global balance of supply and demand for steel, steel products and raw materials. Our margins have been much stronger since 2002 and 2003 when most domestic and global steel companies reported operating losses and many filed for bankruptcy. We believe our variable cost structure allowed us to survive those severely depressed market conditions as scrap prices fell dramatically and our incentive pay system reduced our hourly and salary payroll costs helping to offset lower selling prices. We recognize that the steel business is cyclical in nature and expect to see future changes in the balance of supply and demand impact our margins and profitability. We also recognize that the global demand for steel has been growing at close to 6% annually since 2000 reflecting the building of infrastructure in Brazil, Russia, India, China, the Middle East, Eastern Europe, Africa and other parts of Asia. We believe this growth in steel consumption is likely to last for at least several years as more of the world population becomes industrialized.

Liquidity and Capital Resources

The current ratio was 2.8 at the end of the first half of 2008 and 3.2 at year-end 2007. The percentage of long-term debt to total capital was 28% at the end of the first half of 2008 and 29% at year-end 2007. Accounts receivable and inventories increased 62% and 56%, respectively, since year-end due to the 61% increase in net sales over the fourth quarter of 2007.

Capital expenditures increased over 150% from $198.7 million the first half of 2007 to $501.7 million in the first half of 2008. Capital expenditures, excluding acquisitions, are projected to be over $800 million for all of 2008.

20

In June, Nucor's board of directors declared the regular quarterly cash dividend on Nucor's common stock of $0.32 per share and a supplemental cash dividend of $0.20 per share. The total dividend of $0.52 per share is payable on August 11, 2008 to stockholders of record on June 30, 2008.

Existing cash and cash equivalents and short-term investments of approximately $1.44 billion funded the DJJ acquisition. In late May 2008, Nucor completed a public offering of 27,667,580 common shares at an offering price of $74.00 per share. In early June, Nucor issued $1.00 billion in debt with maturities from 2013 to 2037. We plan to use the approximately $2.97 billion net proceeds after expenses from the common stock offering and the issuance of notes for general corporate purposes including acquisitions, capital expenditures, working capital requirements and repayment of debt.

Funds provided from operations, existing credit facilities and new borrowings are expected to be adequate to meet future capital expenditure and working capital requirements for existing operations for at least the next 24 months. Nucor believes it has the ability to raise additional funds as needed to finance acquisitions and maintain reasonable financial strength.

In June 2008, Nucor received increased commitments under its existing five-year unsecured revolving credit facility to provide for up to $1.3 billion in revolving loans. The multi-year revolving credit agreement matures in November 2012 and was amended in June to allow up to $200 million in additional commitments at Nucor's election in accordance with the terms set forth in the credit agreement. No borrowings were outstanding under the credit facility as of June 28, 2008.

Nucor has recently announced several major projects. In July 2008, Nucor completed the acquisition of 50% of the stock of Duferdofin - Nucor S.r.l., for the purchase price of €423.5 million (approximately $658 million). The company will operate from its current headquarters in San Zeno, Italy. Duferdofin - Nucor S.r.l. operates a steel melting and bloom/billet caster in San Zeno as well as rolling mills in Pallanzeno and Giammoro. Total production in 2007 was approximately one million tons. A new merchant bar mill, which is expected to produce approximately 450,000 tons, is under construction at the Giammoro plant and is expected to be fully operational in late 2008.

In May 2008, Nucor applied for a permit to build a $2 billion state-of-the-art iron-making facility in St. James Parish, Louisiana. Sites outside of the United States are still being considered, and the site selection and capital investment are subject to approval by Nucor's board of directors. The facility is expected to produce 3,000,000 tons of pig iron, employing the latest technologies to reduce emissions. If the project is ultimately built in the U.S., it would be the first domestic greenfield pig iron facility built in more than 30 years.

In June 2008, Nucor announced that its wholly owned subsidiary, Harris Steel, Inc., signed a Purchase Agreement to acquire all of the issued and outstanding common shares of Ambassador Steel Corporation ("Ambassador") for a cash purchase price of approximately $185 million. Based in Auburn, Indiana, Ambassador is a fabricator and distributor of concrete reinforcing steel and related products. The transaction is expected to close during the third quarter of 2008 after satisfactory resolution of certain closing conditions.

Nucor also recently announced the signing of a memorandum of understanding with Sidenor S.A. to purchase a 34% share of a new joint venture that will be formed for the production and distribution of long steel products and plate in the Balkans, Turkey, Cyprus and North Africa. Final agreement to establish the joint venture is dependent upon execution of definitive agreements, completion of due diligence and approval of regulatory bodies and the boards of directors of both companies.

As of June 28, 2008, significant new commitments were entered into during the second quarter of 2008 with respect to the issuance of $1.00 billion in debt with the following estimated payments (in thousands):

	Total	2008	2009 - 2010	2011 - 2012	2013 and thereafter
Long-term debt	**$ 1,000,000**	**$ -**	**$ -**	**$ -**	**$ 1,000,000**
Interest on long-term debt	**822,188**	**28,875**	**115,500**	**115,500**	**562,313**
Total additional contractual obligations	**$ 1,822,188**	**$ 28,875**	**$ 115,500**	**$ 115,500**	**$ 1,562,313**

There were no other significant changes to our contractual commitments as presented in our 2007 Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the ordinary course of business, Nucor is exposed to a variety of market risks. We continually monitor these risks and develop appropriate strategies to manage them.

Interest Rate Risk **- Nucor manages interest rate risk by using a combination of variable-rate and fixed-rate debt. Nucor also makes use of interest rate swaps to manage net exposure to interest rate changes. Management does not believe that Nucor's exposure to interest rate market risk has significantly changed since December 31, 2007.**

Commodity Price Risk **- In the ordinary course of business, Nucor is exposed to market risk for price fluctuations of raw materials and energy, principally scrap steel, other ferrous and nonferrous metals, alloys and natural gas. We attempt to negotiate the best prices for our raw materials and energy requirements and to obtain prices for our steel products that match market price movements in response to supply and demand. Nucor has a raw material surcharge designed to pass through the historically high cost of scrap steel and other raw materials. Our surcharge mechanism has worked effectively to reduce the normal time lag in passing through higher raw material costs so that we can maintain our gross margins.**

Nucor also uses derivative financial instruments to hedge a portion of our exposure to price risk related to natural gas purchases used in the production process and to hedge a portion of our aluminum and copper purchases and sales. Gains and losses from derivatives designated as hedges are deferred in accumulated other comprehensive income (loss) on the condensed consolidated balance sheets and recognized into earnings in the same period as the underlying physical transaction. At June 28, 2008, accumulated other comprehensive income (loss) includes $99.2 million in unrealized net-of-tax gains for the fair value of these derivative instruments. Changes in the fair values of derivatives not designated as hedges are recognized in earnings each period. The following table presents the negative effect on pre-tax income of a hypothetical change in the fair value of derivative instruments outstanding at June 28, 2008, due to an assumed 10% and 25% change in the market price of each of the indicated commodities (in thousands):

Commodity Derivative	10% Change	25% Change
Natural gas	**$ 52,884**	**$ 132,211**
Aluminum	**6,200**	**13,867**
Copper	**370**	**925**

Any resulting changes in fair value would be recorded as adjustments to other comprehensive income (loss), net of tax, or recognized in net earnings, as appropriate. These hypothetical losses would be partially offset by the benefit of lower prices paid or higher prices received for the physical commodities.

Foreign Currency Risk **- Nucor is exposed to foreign currency risk through its operations in Canada and Trinidad and its joint ventures in Australia and Italy. In the first half of 2008, the Company entered into forward foreign currency contracts in order to mitigate the risk of currency fluctuation on the anticipated joint venture with the Duferco Group of Lugano, Switzerland. These contracts had a notional value of €423.5 million and matured in the second quarter of 2008 resulting in gains of $17.6 million. These contracts all settled during the second quarter of 2008.**

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures **- As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. During the first quarter of 2008, Nucor acquired DJJ (See Note 3 to the condensed financial statements included in Item 1). Nucor is in the process of incorporating these operations as part of our internal controls. Nucor has extended its Section 404 compliance program under the Sarbanes-Oxley Act of 2002 and the applicable rules and regulations under such Act to include DJJ. Nucor will report on its assessment of its combined operations within the time period provided by the Act and the applicable SEC rules and regulations concerning business combinations.**

Changes in Internal Control Over Financial Reporting **- There were no changes in our internal control over financial reporting during the quarter ended June 28, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.**

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes in Nucor's risk factors from those included in Nucor's annual report on Form 10-K.

Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of stockholders held on May 9, 2008, the following actions were taken:

Two directors were elected for terms of three years expiring in 2011: 241,232,640 shares were voted for Peter C. Browning (10,150,644 withheld) and 245,970,817 shares were voted for Victoria F. Haynes (5,412,466 withheld). Clayton C. Daley, Jr., Daniel R. DiMicco, Harvey B. Gantt, James D. Hlavacek, Bernard L. Kasriel and John H. Walker continue to serve as directors of the Company.

The Audit Committee's selection of PricewaterhouseCoopers LLP to serve as Nucor's independent registered public accounting firm for the year ending December 31, 2008 was ratified by a vote of 247,136,716 for, 2,144,981 against and 2,101,577 abstaining.

The Annual and Long-term Senior Officers Incentive Compensation plans were approved by a vote of 238,273,291 for, 10,446,898 against and 2,663,079 abstaining.

A stockholder proposal to modify the standard for electing Nucor's directors was defeated by a vote of 103,094,137 for, 118,035,661 against and 2,940,132 abstaining.

23

Item 6. Exhibits

Exhibit No.	Description of Exhibit
2	Stake Purchase by and among Nucor Corporation, Nucor Euopean Holdings BV, and Duferco Participations Holding Ltd., Duferco Italia Holdings S.P.A., dated as of May 12, 2008
10	Senior Officers Annual Incentive Plan
10.1	Senior Officers Long-term Incentive Plan
12.1	Ratio of Earnings to Fixed Charges
31	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.1	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Nucor Corporation has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NUCOR CORPORATION

By: /s/ Terry S. Lisenby

Terry S. Lisenby
Chief Financial Officer, Treasurer
and Executive Vice President

Dated: August 5, 2008

24

NUCOR CORPORATION
List of Exhibits to Form 10-Q - June 28, 2008

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