



August 17, 2011

Ref: Warranty Administration

Dear Valued A. O. Smith Representative:

A. O. Smith has always striven to improve the quality of its products and services through innovative manufacturing and engineering along with the practical application of process improvements. Implementing improvements to products requires the analysis of data from failed components and complete units. Improving various processes requires the analysis of feedback from all affected customers, including distributors, contractors, service providers and end users.

For the past several months, we have been performing random quality audits of parts claims, labor claims and whole goods replacements in order to determine the level of Customer satisfaction with our products and services. We have discovered that a significant percentage of the end user/homeowner information that is being provided on the filed claims is erroneous and/or incomplete. In order for this audit process to be successful and yield valid data, the information provided on the various warranty claim forms must be accurate, complete, legible and submitted in a timely manner.

As we move forward, our intent is to increase these audits in order to provide earlier identification of component issues and/or unfavorable trends in product performance. The information gained will also help identify areas within our service network that may require changes and/or improvement.

We would request that you work with the distributors and/or service providers in your area to reinforce the importance of the accuracy of claims data when they are seeking reimbursement for parts and/or units being claimed under our warranty coverage.

Over the next several months we will be analyzing our warranty data to identify claims trend information that is abnormally high or unusual. Based upon these results, we will reinstate a process to require the selective return of failed products and many of the problematic components in order to validate and properly identify the root cause for their failure, subsequently supporting the efforts to correct the deficiencies and improve reliability. This process will also lead to better field testing and troubleshooting techniques aimed at quickly and accurately addressing and identifying Customer complaints.

Once we have identified those areas that will require further analysis we will be communicating with the appropriate customer what further action(s) we will be asking them to take. We will of course, include you in the correspondence.

Thank you in advance for your support of A. O. Smith and your assistance in improving our business processes.

Regards,

A handwritten signature in blue ink, appearing to read "P. Martineau", with a long horizontal flourish extending to the right.

Peter Martineau  
VP - Customer Satisfaction  
A. O. Smith Water Products Company