AMERICAN STANDARD COMPANIES INC
Form 10-K
February 24, 2006
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2005

¨ **Transition Report to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number 1-11415

AMERICAN STANDARD COMPANIES INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-3465896**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Centennial Avenue, P.O. Box 6820, Piscataway, New Jersey	**08855-6820**
(Address of principal executive office)	**(Zip Code)**

Registrant s telephone number, including area code: (732) 980-6000

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value (and associated Common Stock Rights)	New York Stock Exchange, Inc.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ¨ No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The aggregate market value of the voting stock (Common Stock) held by non-affiliates of the Registrant as of the close of business on June 30, 2005 was approximately $8.8 billion based on the closing sale price of the common stock on the New York Stock Exchange on that date. The company does not have any non-voting common equity.

Number of shares outstanding of each of the Registrant s classes of Common Stock, as of the close of business on February 21, 2006: Common Stock, $.01 par value, 204,876,656 shares.

Documents incorporated by reference:

Document (Portions only)	**Part of the Form 10-K into which document is incorporated.**
Definitive Proxy Statement used in connection with the Annual Meeting of Shareholders to be held on May 3, 2006	Part III

Table of Contents

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	14
Item 1B.	Unresolved Staff Comments	16
Item 2.	Properties	17
Item 3.	Legal Proceedings	18
Item 4.	Submission of Matters to a Vote of Security Holders	20
Item 4A.	Executive Officers of the Registrant	20
	PART II	
Item 5.	Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	22
Item 6.	Selected Financial Data	25
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	52
Item 8.	Financial Statements and Supplementary Data	53
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	100
Item 9A.	Controls and Procedures	100
	PART III	
Item 10.	Directors and Executive Officers of the Registrant	104
Item 11.	Executive Compensation	104
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	105
Item 13.	Certain Relationships and Related Transactions	107
Item 14.	Principal Accounting Fees and Services	107
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	108
	Signatures	116

Important Information Concerning Forward-Looking Statements

Certain of the statements contained in this report (other than the historical financial data and other statements of historical fact), including, without limitation, statements as to management s expectations and beliefs, are forward-looking statements. Forward-looking statements are made based upon management s good faith expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with such expectations or that the effect of future developments on the Company will be those anticipated by management. Forward-looking statements can be identified by the use of words such as believe, expect, plans, strategy, prospects, estimate, project, anticipate, intends and other words of similar meaning in connect discussion of future operating or financial performance. For further information as to important risks and factors that could cause actual results to differ materially from management s expectations, see Item 1. Business , Item 1A. Risk Factors , Item 3. Legal Proceedings , Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Information Concerning Forward-Looking Statements , and Item 7A. Quantitative and Qualitative Disclosures About Market Risk .

Table of Contents

PART I

ITEM 1. BUSINESS

American Standard Companies Inc. (the Company) is a Delaware corporation formed in 1988 to acquire all the outstanding common stock of American Standard Inc., a Delaware corporation (American Standard Inc.) incorporated in 1929. American Standard or the Company refers to the Company, or to the Company and American Standard Inc. or American Standard International Inc. (ASII), its wholly-owned subsidiary, including their subsidiaries, as the context requires.

Business Segments

American Standard is a global, diversified manufacturer of high-quality, brand-name products in three major business segments: air conditioning systems and services; bath and kitchen fixtures and fittings; and vehicle control systems. American Standard is one of the largest providers of products in each of its three major business segments. Each of the segments is discussed below.

Air Conditioning Systems and Services Segment (Air Conditioning)

Air Conditioning Systems and Services, the largest of the Company s businesses, is a leading global manufacturer of commercial and residential heating, ventilation and air conditioning (HVAC) equipment, systems and controls:

Trane products are in over half of all commercial buildings in North America.

Every minute of every day on average, one of the Company s residential air conditioning systems is installed in the U.S.

Air Conditioning also provides after-market parts to the HVAC industry, contracting for the installation and maintenance of commercial HVAC systems featuring its products, and service for its commercial products and those of other manufacturers. The business markets and sells its products and services globally under the TRANE® name and, for U.S. residential and light commercial applications, under both the TRANE® and AMERICAN STANDARD® names.

Trane was founded in La Crosse, Wisconsin, in 1864 and became part of American Standard in 1984. The business strategy for the commercial market is to provide commercial customers with integrated systems and solutions including equipment, controls, parts and services that make their buildings and therefore their businesses perform better. The business strategy for the residential market is to provide homeowners with total home comfort solutions including equipment and controls to create an ideal home environment.

Air Conditioning, with revenues of $6.015 billion in 2005, accounted for 59 percent of the Company s sales and 65 percent of its 2005 segment income.

Customers and key markets

Approximately 60 percent of Air Conditioning s revenue in 2005 was from sales of equipment, parts and services to the replacement, renovation and repair market segment, and the remainder from new construction. Revenue from the commercial and residential markets accounted for approximately 70 percent and 30 percent, respectively, of Air Conditioning s total revenue in 2005. Air Conditioning derived 26 percent of its 2005 revenue from sales outside the U.S.

Air Conditioning has operations in North America, Europe and Middle East, Asia, Australia and Central and South America. For sales by geographic region and end markets, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

1

Table of Contents

Products and services

Products manufactured by Air Conditioning include:

- Large commercial systems consisting of chillers, air handlers and terminal devices such as variable air volume units and fan coils.
- Light and large commercial unitary systems.
- Split-system and packaged residential systems including condensing units, furnaces, air handlers, heat pumps, coils and air filtration devices.

Air Conditioning also produces a wide range of HVAC controls including:

- Thermostats that regulate room and building temperature.
- Unit controls to optimize and manage the performance of each unit.
- HVAC system controls that optimize the system s performance.
- Integrated building automation systems that automatically control a building s performance, including its energy consumption, air quality and comfort as well as lighting, fire, safety and security control systems.

The business offers high-energy efficiency system options for every commercial building type around the world. In addition, residential air conditioning is introducing two other home environment platforms in 2006 and 2007 including custom comfort controls and new high efficiency product solutions. Energy efficiency means greater comfort for building occupants and homeowners, lower energy and raw material use such as oil and natural gas, and less impact on other environmental factors. Examples of Trane s energy efficient commercial systems include:

- EarthWise CenTraVac centrifugal chiller, which is up to 13.6 percent more efficient than the next available product.
- Energy recovery systems that use less energy to cool and heat during all seasons and provide free energy for the creation of hot water.
- The XL19i two stage split system air conditioner and heat pump that can save consumers more than 60 percent in operating cost compared with a 10-year-old existing unit.
- Variable speed indoor systems that are highly efficient to operate. In continuous fan mode, the operating cost can be up to 90 percent less than a standard model.

The residential business also launched the healthy air systems platform of new products to distributors and dealers at the end of 2005 with a major consumer marketing launch planned for 2006. The platform is based on investments in an exclusive indoor air filtration technology that removes up to 99.98 percent of all allergens and particles from the filtered air down to 0.3 microns in size. This filter efficiency is up to 100 times more effective than a standard one inch air filter used in most homes.

The Company sells a variety of commercial service agreements covering both its own and its competitors equipment and systems. It also sells optional extended warranties on its own equipment.

Marketing and sales

Air Conditioning has a broad global network of company-owned and independent sales offices, independent agents and wholesale distributors distributing its products primarily through two separate channels:

A commercial channel.

A dealer channel.

The commercial channel is served by 197 company-owned and independent commercial sales offices (CSO), 39% are in the U.S. and Canada and the remainder throughout Europe, the Middle East, Latin America and Asia Pacific regions. CSOs work with building owners or their agents, such as architects and consulting engineers, to design and apply state-of-the-art HVAC systems to various buildings and sell equipment, systems and controls primarily to mechanical contractors.

A growing area is sales direct to building owners or sales directed by owners, primarily through national account relationships with owners or operators who manage a distributed network of facilities such as retail and hospitality chains, federal, state and local governments and agencies and process manufacturers such as pharmaceutical or electronics companies.

Table of Contents

In addition to selling original equipment, Trane CSOs manage a network of more than 140 parts centers serving the needs of Company-owned and independent HVAC service companies. The parts centers are either separate locations or part of the CSO locations. The CSOs also have an extensive network of service technicians and applications engineers who provide design, installation, consulting and maintenance services and controls contracting. Outside the U.S. and Canada, CSOs sell residential products to independent dealer/installers in addition to servicing the commercial channel.

The dealer channel in the U.S. and Canada is served by Company-owned sales offices and independent wholesale distributors. These sales offices and distributors have more than 500 stocking locations that sell Trane and American Standard residential and light commercial unitary products (up to 25 tons) to dealers and contractors who sell and install the equipment. TRANE® brand residential products are well positioned in the retail sales channel through an arrangement with the Home Depot, the leading home improvement retailer in the U.S., to market certain central heating and air conditioning systems through the Company s dealers to residential customers.

Competitors and competitive advantages

Air Conditioning competes in all of its markets on the basis of the breadth, quality and reliability of its products and services; innovation and technological leadership; energy efficiency; price; and value. Its major competitors are:

Residential products in the U.S.: Carrier, Goodman Industries, Lennox, Rheem and York, recently acquired by Johnson Controls, Inc.

Commercial equipment globally: Carrier, McQuay, Daiken and York, recently acquired by Johnson Controls, Inc.

Control products in the U.S. and Canada: Honeywell International Inc., Johnson Controls and Siemens.

Organization

The business today employs approximately 27,100 people and had 29 production facilities worldwide. Its principal manufacturing operations are in Brazil, China, Egypt, France, Malaysia, Mexico, Taiwan, Thailand, the U.K. and the U.S. Its headquarters offices are in Piscataway, New Jersey and Tyler, Texas with its international headquarters in Brussels, Belgium and Shanghai, China. In 2005, the business opened a new factory in Zhongshan, China as part of its commitment to the growing commercial market in Asia.

For sales, segment income and assets by geographic region and end markets and a discussion of backlog, see Management Discussion and Analysis of Financial Condition and Results of Operations and Note 16. of Notes to Financial Statements.

Recent developments

In December 2005, Johnson Controls, Inc. (JCI) completed its acquisition of York International, a global supplier of HVAC equipment and services in an effort to broaden its offerings of products and services to the HVAC industry.

In U.S. residential markets, air conditioners and heat pumps manufactured after January 23, 2006 must meet the Department of Energy s new minimum efficiency standard of 13 SEER (Seasonal Energy Efficiency Ratio). As a result, the business residential product lines and manufacturing facilities were totally redesigned to comply with the new standards and we are completely transitioned to 13 SEER. See Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the impact of this transition on results of operations.

Bath and Kitchen Segment (Bath and Kitchen)

The Company s Bath and Kitchen business is the world s largest global manufacturer of bath and kitchen products including toilets, sinks, tubs, faucets, accessories and related products. Bath and Kitchen also has one of the longest histories in the industry, originating in 1875 as Standard Sanitary Manufacturing Company. Today, the business holds leading positions in key markets around the world.

Table of Contents

Bath and Kitchen s strategy is to make the most of its unique global capabilities to develop and deliver style and performance for customers and consumers. Total 2005 sales were $2.418 billion, which represented 23 percent of the Company s total sales. In 2005, Bath and Kitchen contributed 10 percent of the Company s segment income.

Customers and channels of distribution

The business manufactures and distributes products in Europe, the Americas (primarily the U.S., Canada, Mexico and Brazil) and Asia. For more information about sales by geographic region and end markets, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

Bath and Kitchen s products are sold through retail and wholesale sales channels for residential and commercial markets throughout the world. In 2005, residential sales (renovation and item replacement, new construction) represented 80 percent of the Americas market, 78 percent of the European market and 69 percent of the Asia market. The Americas and European markets are primarily driven by renovation, while the Asian market is driven somewhat more by sales from new construction. In 2005, sales to commercial markets represented 19 percent of Americas and Europe s total sales and approximately 31 percent of total sales in Asia. The replacement and remodeling market (commercial and residential) alone accounted for about 60 percent of Bath and Kitchen s sales in Europe and the Americas and about 20 percent of sales in Asia.

Bath and Kitchen s products are often installed by plumbers and contractors. Sales also continue to expand through do-it-yourself (DIY) retail home centers such as Home Depot and Lowe s in the U.S., B&Q in Europe and Asia and Castorama in Europe. In 2005, sales through DIY retail home centers represented approximately 45 percent of Bath and Kitchen s sales in the Americas, less than 5 percent of Bath and Kitchen s sales in Europe and approximately 8 percent of Bath and Kitchen s sales in Asia.

Within the wholesale channel, Bath and Kitchen serves global customers such as Wolsley and Saint-Gobain. The showroom business has also developed within the wholesale channel for consumers, designers and architects who want to see products in a higher service environment.

Key markets

Bath and Kitchen conducts business primarily in three regions of the world: Europe, the Americas and Asia.

Sales from the European region represented 53 percent of 2005 Bath and Kitchen sales.

Sales from the Americas region represented 40 percent of 2005 Bath and Kitchen sales.

Sales from the Asia-Pacific region represented 7 percent of 2005 Bath and Kitchen sales.

Products and services

Bath and Kitchen produces three broad types of products:

Fixtures, which are toilets, sinks, tubs and bidets, represented 50 percent of 2005 Bath and Kitchen sales.

Fittings, which are faucets, showerheads and showering systems, represented 26 percent of 2005 Bath and Kitchen sales.

Acrylic and wellness products, which are specialty tubs, whirlpools, showering enclosures and super showers. These represented 13 percent of 2005 Bath and Kitchen sales.

Bath and Kitchen also produces Americast® tubs and sells accessories for the kitchen sink and bathroom including towel racks, mirrors, soap dispensers and soap holders. The business also produces and markets an array of furniture systems and vanities for the bathroom. Sales for these accessories and other products accounted for 11 percent of 2005 Bath and Kitchen sales.

Table of Contents

Marketing and brands

Bath and Kitchen has a strong portfolio of well-known brands to address a variety of market segments in each region:

	Brand portfolio		
Market segment	**Americas**	**Asia**	**Europe**
Premium	JADO/Porcher	JADO	JADO
Mass Market	American Standard	American Standard	Ideal Standard
Value			Armitage Shanks
			Ceramica Dolomite

Competitors and competitive advantages

Bath and Kitchen competes with a number of global, regional and local companies. In Europe, the major competitors are:

Fittings: Hansgrohe (Masco) and Grohe

Fixtures: Kohler, Sanitec, Roca/Laufen and Villeroy & Boch

Whirlpools: Jacuzzi and Teuco

In the Americas, the major competitors are:

Fittings: Delta (Masco), Moen (Fortune Brands), Price Pfister (Black and Decker) and Kohler

Fixtures: Kohler, Crane, Eljer and TOTO

Whirlpools: Jacuzzi

In Asia, TOTO, Kohler and a host of local brands are the prime competitors. All of the competitors globally have to compete with an array of low-cost suppliers in these markets.

One way that Bath and Kitchen competes is by developing new products with style and performance that are more valued by Bath and Kitchen s customers and consumers. To deliver style, Bath and Kitchen continues to:

Introduce bathroom suites by internationally known designers and architects to meet the tastes and styles of the marketplace.

Offer total bathroom solutions that provide customers and consumers with fully coordinated and integrated suites of products, including sinks, toilets, faucets, tubs, showers, bathroom furniture and accessories.

Expand its presence in customer- and company-owned high-quality showrooms and showplaces featuring its higher-end products in certain countries. These programs, along with expanded sales training activities, have enhanced the image of Bath and Kitchen s products with interior designers, decorators, consumers and plumbers.

To deliver performance, Bath and Kitchen is introducing a variety of new products that consumers want and need in a variety of areas:

Hygiene and other advanced features: New faucets with hygienic surface technologies, electronic controls, anti-leak and anti-scald features.

Comfort: New flat jets have been designed for whirlpools that provide enhanced therapeutic treatment and comfort, and a line of super showers and luxury whirlpool features will be introduced in Europe in 2006.

Water conservation: The Champion® toilet, with America s Best Flushing System, was launched in China, Korea and Thailand, following its successful U.S. launch in 2004. The 4.8 Liter FloWise toilet will launch in China with the 4 Liter model to follow shortly. FloWise technology is of interest to the Chinese market because of its ability to reduce water usage.

Ease of use and installation: An easy-to-install faucet called SpeedConnect and an easy-to-clean faucet called EverClean will launch in the Americas in 2006.

Table of Contents

Organization

Bath and Kitchen employs approximately 27,000 people and had 57 production facilities worldwide.

For sales, segment income and assets by geographic region and end markets and a discussion of backlog, see Management Discussion and Analysis of Financial Condition and Results of Operations and Note 16. of Notes to Financial Statements.

Recent developments

In January 2006, Home Depot announced plans to acquire Hughes Supply Inc. Both businesses are customers of American Standard s Bath and Kitchen business.

Vehicle Control Systems Segment

Vehicle Control Systems (VCS), operating under the WABCO® name, produces a variety of control systems that improve vehicle safety and reduce overall vehicle operating costs for the world s leading commercial truck, trailer, bus and passenger car manufacturers. Specifically, VCS manufactures and sells advanced braking, stability, suspension and transmission control systems.

VCS is a worldwide technology leader in its field. VCS is responsible for many innovations including:

First heavy-duty truck anti-lock braking system (ABS).

First electronically controlled air suspension (ECAS) system for commercial vehicles.

First commercial vehicle automatic transmission controls.

First electronic stability control (ESC) system for commercial vehicles.

First integrated vehicle tire pressure monitoring system (IVTM) for commercial vehicles, developed in partnership with Michelin.

VCS products are included in two out of three commercial vehicles with advanced vehicle control systems and increasingly are used in luxury and mid-sized cars and sport utility vehicles (SUV). The business strategy for growth is to provide more components and systems throughout the life of a vehicle, from design and development to the after-market, in more parts of the world.

Founded in the U.S. in 1869 as Westinghouse Air Brake Company (WABCO), VCS was acquired by American Standard in 1968. VCS 2005 sales of $1.831 billion represented 18 percent of American Standard Companies sales and 25 percent of its segment income. Sales in Europe represented 75 percent of VCS 2005 revenue.

Customers and key markets

VCS products are sold directly to vehicle and component manufacturers around the world. Replacement parts are sold through both original equipment manufacturers (OEM s) and an independent after-market distribution network.

VCS has a strong reputation for technological innovation and is a leading systems development partner with several major vehicle manufacturers. Some of VCS largest customers are DaimlerChrysler (Mercedes and Freightliner), Fiat (IVECO), Ford, General Motors, Hino, Hyundai, ITE, MAN, Nissan, Paccar (DAF, Kenilworth, Leyland and Peterbuilt), Porsche, Scania, Volkswagen and Volvo (Mack and Renault).

In 2005, DaimlerChrysler s global logistics organization and IVECO honored WABCO as a supplier of the year, and readers of three leading German trade magazines voted WABCO best brand in brakes.

The business manufactures and distributes products in the Americas (primarily the U.S. and Canada), Brazil, Asia and Europe. For sales by geographic region and end markets, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

Products and services

VCS manufactures and sells advanced braking, stability, suspension and transmission control systems primarily for commercial vehicles. The business is also a leader in improving highway safety, with products that help drivers avoid accidents by enhancing vehicle responsiveness and stability. For example, VCS offers a stability control system for trucks and buses that constantly monitors the vehicle s motion and dynamic stability. If the system detects danger such as the driver swerving to avoid another vehicle it responds by applying the brakes at specific wheels, or slowing the vehicle down to prevent instability or a rollover.

VCS largest-selling products are pneumatic anti-lock braking systems (ABS), related electronic braking systems (EBS) and conventional components such as actuators, compressors and transmission automation products for heavy- and medium-sized trucks, trailers and buses. VCS also supplies advanced electronic suspension controls to the luxury car and SUV markets in Europe and North America.

The Company believes that automated transmission control will be increasingly important in the trucking and transport industry worldwide. Leading European truck manufacturers include VCS electronic controls for automated transmissions as standard or optional equipment for heavy- and medium-duty vehicles.

VCS has increased sales in recent years in part by developing additional integrated systems for vehicles including driver-assistance products such as adaptive cruise control and active safety systems such as stability control systems.

Other new products under development include further advancements in electronic braking, stability and safety controls, telematic systems that monitor vehicle system data and driveline-control and suspension-control systems.

In recent years, VCS has also increased sales by extending the geographic scope, product range and service offerings of its after-market activities. It has added new service centers, an increasing range of diagnostic software and advanced technical training to customers employees at distributors, fleets and maintenance workshops.

Competitors and competitive advantages

VCS principal competitor is Knorr/Bremse (Knorr s U.S. subsidiary is Bendix Commercial Vehicle Systems). VCS competes primarily on the basis of customer service, quality and reliability of products, global technological leadership, vehicle life-cycle expertise, and price and value.

Organization

Headquartered in Brussels, Belgium, the business employs approximately 6,900 people and had 13 production facilities worldwide. Its primary manufacturing operations are in Brazil, China, France, Germany, Poland, the Netherlands, South Korea and the United Kingdom. In 2005, VCS opened a new factory and distribution center in Qingdao, People s Republic of China.

In addition, VCS has the following joint ventures, partnerships and investments:

In North America, WABCO markets ABS and other vehicle control products through its 50 percent-owned joint venture with Arvin Meritor Automotive Inc. (Meritor WABCO).

A majority-owned partnership in the U.S. with Cummins Engine Co. (WABCO Compressor Manufacturing Co.), a manufacturing partnership formed to produce air compressors designed by WABCO.

A majority-owned joint venture in China with Mingshui Automotive Fitting Factory (MAFF).

Minority equity investments in joint ventures in India with TVS Group (Sundaram-Clayton Ltd.) and in South Africa (WABCO SA).

For sales, segment income and assets by geographic region and end markets, and a discussion of backlog, see Management Discussion and Analysis of Financial Condition and Results of Operations and Note 16. of Notes to Financial Statements.

Table of Contents

Business Segment Data

Information concerning sales and segment income attributable to each of the Company s business segments and geographic areas is set forth in Item 6, Selected Financial Data, in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and in Note 16 of Notes to Financial Statements, all of which are incorporated herein by reference. Information concerning identifiable assets of each of the Company s business segments is set forth in Note 16 of Notes to Financial Statements, which is incorporated herein by reference. Information on backlog and the seasonal aspects of the Company s business are set forth in Management s Discussion and Analysis of Financial Condition and Results of Operations, under the captions Results of Operations by Business Segment and Cyclical and Seasonal Nature of Business, respectively.

Company Goals

American Standard has adopted the following performance goals:

- Sales growth, through:
  - Delivering premier customer service,
  - Technological leadership and product innovation based on knowledge to meet changing customer needs,
  - Introducing new products, solutions and services,
  - Expanding marketing efforts, building brand awareness and differentiation, and
  - Geographic expansion.
- Productivity improvement through:
  - Materials management programs,
  - Quality and Six Sigma programs, and
  - Inventory reduction/rationalization.
- Financial goals to improve asset utilization and return on capital, including:

Improving earnings per share, margins and cash flow,

Maintaining investment grade debt rating,

Maintaining or lowering the effective tax rate, and

Maintaining or increasing the Company s stock buy-back program and dividend payment.

Materials Management

The materials management initiative is centered on leveraging collective buying power on a global basis to improve purchasing efficiency, reduce the number of suppliers and improve the supply chain. Materials management also involves working with suppliers to develop effective components with lower part counts and easier assembly, resulting in improved quality and reduced costs. It is also intended to identify opportunities to substitute lower-cost materials for higher-cost ones, without compromising quality, durability and safety. With material costs representing a significant portion of total costs, management believes that continued improvements realized through materials management could result in substantial savings.

Management continues to adopt challenging goals for continuous performance improvement. In 2005, improvements from materials management programs were able to partially offset increasing commodity costs related to the purchase of steel, copper, aluminum and energy, which negatively impacted the Company by $182 million. Incremental benefits from this program were approximately $79 million in 2005, $135 million in 2004 and $100 million in 2003.

Table of Contents

Six Sigma

Six Sigma is a structured approach to achieving significant productivity improvements in business and manufacturing processes through data-driven decisions. Originally introduced to American Standard in 2000, more than 20,000 employees have been trained in Six Sigma tools that have contributed approximately $190 million in productivity gains.

The Company continues to develop and deploy technical experts (called Six Sigma Master Black Belts, Black Belts and Green Belts) through aggressive training and project deployment programs. By the end of 2005, the Company had 47 Master Black Belts, 716 Black Belts and 4,080 Green Belts who were certified or in training. To achieve such a designation, specific projects, timelines, milestones and savings must be achieved. In addition, approximately 15,200 employees have received training in Six Sigma fundamentals since the initiation of the program in 2000. Management is continually broadening the Six Sigma approach to cover functions beyond manufacturing. In the past two years it has provided specific Six Sigma training in safety, materials management, transactional analysis and design, deployment of new products, lean manufacturing, sales/marketing, maintenance and administrative processes.

Linkage of Goals with Incentive Compensation Plans

Management has adopted incentive compensation plans that are directly linked to achievement of the company-wide goals described above. Management believes the attainment of these goals will result in improved financial performance and enhanced shareholder value.

Other Matters Relating to American Standard s Business as a Whole

Raw Materials and Purchased Components

The Company purchases a broad range of materials and components throughout the world in connection with its manufacturing activities. Major items include steel, copper tubing, aluminum, ferrous and nonferrous castings, clays, motors, electronics and energy (primarily natural gas). The ability of the Company s suppliers to meet performance and quality specifications and delivery schedules is important to the Company s operations. Material costs represent a significant portion of total costs. As a result, the Company has integrated much of its raw materials and components procurement efforts into its materials management initiative, which the Company believes results in significant savings. The energy and materials required for its manufacturing operations have been readily available. Although the Company does not foresee any significant raw material shortages, it does expect to incur higher costs for certain commodity raw materials in 2006.

Table of Contents

Patents, Licenses and Trademarks

The Company s operations are not dependent to any significant extent upon any single or related group of patents, licenses, franchises or concessions. The Company s operations also are not dependent upon any single trademark, although some trademarks are identified with a number of the Company s products and services and are of importance in the sale and marketing of such products and services. Some of the Company s trademarks are:

Business Segment	Trademark
Air Conditioning Systems and Services	TRANE®
	AMERICAN STANDARD®
Bath and Kitchen	AMERICAN STANDARD®
	IDEAL STANDARD®
	STANDARD®
	PORCHER®
	JADO®
	ARMITAGE SHANKS®
	DOLOMITE®
	AMERICAST®
	VENLO®
	BORMA®
	VENESTA®
	SOTTINI®
	SANGRA®
Vehicle Control Systems	WABCO®

The Company from time to time has granted patent licenses to, and has licensed technology from, other parties.

Table of Contents

Research and Product Development

The Company made expenditures of $187 million in 2005, $165 million in 2004 and $152 million in 2003 for research and product development and for product engineering in its three business segments. The expenditures for research and product development alone were $114 million in 2005, $102 million in 2004 and $92 million in 2003 and were incurred primarily by Vehicle Control Systems and Air Conditioning Systems and Services. Vehicle Control Systems, which expended the largest amount, has conducted research and development in recent years on advanced electronic braking systems, stability control systems, electronically controlled air suspension systems, automated transmission controls, tire pressure monitoring, automatic climate-control and door-control systems for the commercial vehicle industry. Air Conditioning Systems and Services research and development expenditures were primarily related to alternative refrigerants, compressors, heat transfer surfaces, airflow technology, acoustics, clean air products for residential air conditioning, and micro-electronic controls. Expenditures made by Bath and Kitchen related primarily to enhancing the functionality, performance and design of its products.

Regulations and Environmental Matters

The Company s U.S. operations are subject to federal, state and local environmental laws and regulations. The Company has a number of proactive programs under way to minimize its impact on the environment and believes that it is in substantial compliance with environmental laws and regulations. A number of the Company s plants are undertaking responsive actions to address soil and groundwater issues. In addition, the Company is a party to a number of remedial actions under various federal and state environmental laws and regulations that impose liability on companies to clean up, or contribute to the cost of cleaning up, sites at which hazardous wastes or materials were disposed or released. Remedial actions to which the Company is a party include approximately 29 current proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (Superfund) and similar state statutes in which the Company has potential liability based either on a past or current ownership interest in the site requiring remedial actions or based on disposal or alleged disposal of waste products at the site requiring remedial actions. Expenditures in 2005, 2004 and 2003 to evaluate and remediate such sites were not material.

Additional sites may be identified for environmental remediation in the future, including properties previously transferred by the Company and with respect to which the Company may have contractual indemnification obligations. The Company cannot estimate at this time the ultimate aggregate costs of all remedial actions because of (a) uncertainties surrounding the nature and application of environmental regulations, (b) the Company s lack of information about additional sites at which it may be listed as a potentially responsible party, (c) the level of cleanup that may be required at specific sites and choices concerning the technologies to be applied in corrective actions, (d) the number of contributors and the financial capacity of others to contribute to the cost of remediation at specific sites and (e) the time periods over which remediation may occur. On the basis of the Company s historical experience and information currently available, these environmental actions should not have a material adverse effect on its financial condition, results of operations or liquidity.

The Company s international operations are also subject to various environmental statutes and regulations. Generally, these requirements tend to be no more restrictive than those in effect in the U.S. Currently, 21 of the Company s international operations have ISO 14001 certification, and the Company believes it is in substantial compliance with existing domestic and foreign environmental statutes and regulations. As in the U.S., a number of the Company s facilities are undertaking responsive actions to address groundwater and soil issues. Expenditures in 2005, 2004 and 2003 to evaluate and remediate these sites were not material. On the basis of the Company s historical experience and information currently available, these environmental actions should not have a material adverse effect on its financial condition, results of operations or liquidity.

The Company has derived significant revenues in recent years from sales of air conditioning equipment that uses refrigerants which contain chlorofluorocarbons (CFCs) or hydrochloroflurocarbons (HCFCs). Production and use in new equipment of certain CFCs, HCFCs and other chemicals with ozone-depletion potential are being phased out over various periods under laws and regulations that require use of substitute permitted refrigerants. Also, utilization of new refrigerants will encourage replacement or modification of existing air conditioning equipment.

The Company believes that these regulations will have the effect of generating additional product sales and parts and

Table of Contents

service revenues, as existing air conditioning equipment utilizing CFCs or HCFCs, is converted to operate on other refrigerants or replaced. The Company is unable to estimate the magnitude or timing of these conversions or replacements. The Company has been working closely with refrigerant manufacturers that are developing refrigerant substitutes for CFCs and HCFCs, so that the Company s products will be compatible with those substitutes. Although a significant percentage of the Company s commercial air conditioning products will require modification for refrigerant substitutes, the Company believes that it will remain competitive and does not expect any significant problems in complying with this changing regulatory environment. In addition, the Company is a leader in developing energy-efficient products that meet or exceed certain federal and state efficiency standards. However, providing more energy-efficient products will require additional research and development expense and capital expenditures to continue to offer energy-efficient product choices to the customer. The Company believes it will remain competitive and that it has adequate financial resources to fund these efforts.

Employees

The Company employed approximately 61,200 people as of December 31, 2005 (excluding employees of unconsolidated joint venture companies). The Company has 16 major labor union contracts in the Americas (covering approximately 11,300 employees). Five of these contracts expired and were successfully renegotiated in 2005 (covering approximately 2,200 employees) as well as the national agreement covering the majority of unionized Air Conditioning Systems and Services sales offices in the United States (covering approximately 325 employees). Three contracts will expire in 2006 (covering approximately 2,800 employees); 2 contracts will expire in 2007 (covering approximately 1,100 employees); 4 contracts will expire in 2008 (covering approximately 2,900 employees). In addition, five contracts in Mexico (covering approximately 4,400 employees) are negotiated on an annual basis. There can be no assurance that the Company will negotiate the labor contracts expiring during 2006 without a work stoppage. However, the Company does not anticipate any problems in renegotiating these contracts that would materially affect operational results.

The Company also has 30 major labor contracts outside North America (covering approximately 21,000 employees). The Company does not anticipate any problems in renegotiating these contracts that would materially affect operational results.

There was a work stoppage involving 60 employees at a Bath & Kitchen plant in Cornwall, Canada from February 21, 2005 to March 24, 2005. A contract was subsequently ratified. Additionally, 140 French service technicians organized a work stoppage for 1.5 days across 16 Trane distribution offices in France beginning on June 6, 2005. The conflict was over dissatisfaction with the wage contract agreed to between the management and the elected representatives of the Société Trane employees in Epinal and was resolved through direct communications with the service technicians once they had agreed to return to work. 700 hourly employees in the Golbey and Charmes manufacturing sites in France staged periodic 30 minute work stoppages over 3 days during the course of annual wage negotiations in May. These issues were fully resolved with the ratification of the contract with the works council in France and did not have a significant impact on the financial results of the Company.

Although the Company believes relations with its employees are good, there can be no assurance that the Company will not experience significant work stoppages in the future.

Customers

The business of the Company taken as a whole is not dependent upon any single customer or a few customers.

International Operations

The Company conducts operations through subsidiaries in most of the countries of Western Europe, Bulgaria, the Czech Republic, Poland, Brazil, Canada, Mexico, Central American countries, China, Indonesia, Japan, Malaysia, the Philippines, South Korea, Thailand, Taiwan, Vietnam and Egypt. In addition, the Company conducts business in some of these countries and in other countries through affiliated companies and partnerships in which the Company owns 50% or less of the stock or partnership interest. Because the Company has manufacturing operations

Table of Contents

in 27 countries, fluctuations in currency exchange rates may have a significant impact on its financial statements. Such fluctuations have much less effect on local operating results, because the Company to a significant extent sells its products within the countries in which they are manufactured. However, a growing portion of the Company s products are manufactured in lower-cost locations such as Mexico and Brazil and sold in various countries, resulting in increased exposure to foreign exchange effects. The asset exposure of foreign operations to the effects of exchange volatility has also been partly mitigated by the denomination in foreign currencies of a portion of the Company s borrowings. The Company is also subject to political risks related to its foreign operations.

Certain Corporate Governance Matters

Available Information

The Company s Web site is www.americanstandard.com. Our periodic reports and all amendments to those reports required to be filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 are available free of charge through the Web site. During the period covered by this report, the Company posted its periodic reports on Form 10-K and 10-Q and its current reports on Form 8-K and any amendments to those documents to its Web site as soon as reasonably practicable after those reports were filed or furnished electronically with the Securities and Exchange Commission. The Company will continue to post to its Web site such reports and amendments to those reports as soon as reasonably practicable after those reports are filed with or furnished to the Securities and Exchange Commission.

Availability of Corporate Governance Principles and Board of Director Committee Charters

The Board of Directors has adopted charters for its Audit Committee, Management Development and Compensation Committee and Corporate Governance and Nominating Committee. The Board has also adopted Corporate Governance Principles, which include the Company s Definition of Director Independence. The Corporate Governance Principles, the Code of Conduct and Ethics referenced below, and each of the charters are available on the Company s Web site. These materials, together with the Code of Conduct and Ethics referenced below, are available in print to any shareholder who requests them in writing by contacting the Secretary of the Company at One Centennial Avenue, Piscataway, New Jersey 08855.

Code of Conduct and Ethics

The Company s Code of Conduct and Ethics, which applies to all employees, including all executive officers and senior financial officers (including the Chief Financial Officer and the Controller) and directors, is posted on its Web site www.americanstandard.com. The Code of Conduct and Ethics is compliant with Item 406 of SEC Regulation S-K and the New York Stock Exchange corporate governance listing standards. Any changes to the Code of Conduct and Ethics that affect the provisions required by Item 406 of Regulation S-K will also be disclosed on the Web site. Any waivers of the Code of Conduct and Ethics for our executive officers, directors or senior financial officers must be approved by the Company s Audit Committee and those waivers, if any are ever granted, would be disclosed on our Web site under the caption Exemptions to the Code of Conduct and Ethics. There have been no waivers to the Code of Conduct and Ethics.

New York Stock Exchange Annual Chief Executive Officer Certification

The Company s Chief Executive Officer submitted to the New York Stock Exchange (NYSE) Annual CEO Certification as to the Company s compliance with the NYSE s corporate governance listing standards to the NYSE on May 23, 2005.

Sarbanes-Oxley Act Section 302 Certifications

The certification of the Chief Executive Officer and Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 have been filed as exhibits to this Form 10-K.

Table of Contents

ITEM 1A. RISK FACTORS

Any of the following factors could materially adversely affect our future operating results. Other factors are included in Management s Discussion and Analysis of Financial Condition and Results of Operations Information Concerning Forward Looking Statements.

The Company s sales could decline due to macro-economic factors, weather and other factors outside of the Company s control.

Changes in economic conditions and changes in the local economies of the countries or regions in which we sell our products, such as changes in consumer confidence, increases in interest rates and increases in unemployment, could affect consumer demand for our products, which could negatively affect our business and results of operations.

The Air Conditioning Systems and Services business performance is also influenced by weather conditions. Unexpected cool trends or unseasonably warm trends during the summer season could negatively or positively affect our business and results of operations.

In the U.S., much of the consumer demand for the Company s products has been driven by the replacement, repair, remodeling and new construction markets. The replacement, repair, remodeling and new construction markets have shown substantial growth over the last few years. Both our Air Conditioning Systems and Services and Bath and Kitchen segments have benefited from the growth in the replacement, repair and remodeling markets and new residential construction markets in the U.S and the Air Conditioning Systems and Services business has benefited from recent increases in the commercial air conditioning markets. As sales to the U.S., through our Air Conditioning Systems and Services and Bath and Kitchen segments comprise approximately 51% of our total sales, a significant decline in any of the replacement, repair, remodeling, new residential construction or commercial air conditioning markets brought on by a downturn in the U.S. economy, or for any reason, could negatively affect our results of operations.

Similarly, in the last few years, the market for new heavy truck and bus production has increased in Western Europe, which is the leading market for the braking system products manufactured by the Company s Vehicle Control Systems segment, which comprised 18% of 2005 sales. If economic conditions in Western Europe lead to a significant decline in the production of new trucks and buses our results of operations could be negatively affected. In addition, Vehicle Control Systems performance is influenced by the number of miles driven by users of commercial vehicles. As commercial truck and bus fleets continue to be used for longer periods of time, sales to OEM customers could soften as purchases of new vehicles for fleets are delayed.

The Company s exposure to exchange rate fluctuations on cross border transactions and the translation of local currency results into U.S. dollars could negatively impact our results of operations.

The Company conducts business through subsidiaries in many different countries, and fluctuations in currency exchange rates could have a significant impact on the reported results of our operations, which are presented in U.S. dollars. In 2005, approximately 50% of our consolidated sales occurred outside of the United States. A significant and growing portion of our products are manufactured in lower-cost locations and sold in various countries. Cross border transactions, both with external parties and intercompany relationships, result in increased exposure to foreign exchange effects. Accordingly, significant changes in currency exchange rates, particularly the EURO, Pound Sterling, Brazilian Real, Mexico Peso and the U.S. dollar, could cause fluctuations in the reported results of our operations that could negatively affect our results of operations. Additionally, the strengthening of certain currencies such as the EURO and U.S. dollar potentially exposes the Company to competitive threats from lower cost producers in other countries such as China. Lastly, the Company s sales are translated into U.S. dollars for reporting purposes.

The strengthening or weakening of the U.S. dollar could result in favorable or unfavorable translation effects as the results of foreign locations are translated into U.S. dollars.

Table of Contents

The Company is subject to general risks associated with our foreign operations.

In addition to the currency exchange risks inherent in operating in many different foreign countries, there are other risks inherent in our international operations.

The risks related to our foreign operations that we more often face in the normal course of business include:

- Changes in tax law, increases in tax rates and the amount of foreign earnings relative to total consolidated earnings could change and impact our consolidated tax rate.
- Foreign earnings may be subject to withholding requirements or the imposition of tariffs, price or exchange controls, or other restrictions, including restrictions on repatriation of earnings;
- General economic and political conditions in countries where we operate may have an adverse effect on our operations in those countries; and
- We may have difficulty complying with a variety of foreign laws and regulations, some of which may conflict with United States law, and the uncertainty created by this legal environment could limit our ability to effectively enforce our rights in certain markets.

The ability to manage these risks could be difficult and may limit our operations and make the manufacture and distribution of our products internationally more difficult, which could negatively affect our business and results of operations.

If the Company is unable to obtain certain raw materials and component parts at reasonable price levels, our ability to maintain existing sales margins may be affected.

We purchase a broad range of materials and components throughout the world in connection with our manufacturing activities. Major items include steel, copper tubing, aluminum, ferrous and nonferrous castings, clays, motors, electronics and energy. The cost of raw materials represents a significant portion of our total costs. In 2005, we incurred higher costs for certain raw materials, energy and logistics (transportation costs), which affected our earnings. Our future results of operations and profitability could be negatively affected if we cannot obtain our raw materials at a reasonable cost. While the Company was able to raise prices in 2005 to offset some of the impact of rising commodity costs, on a cumulative basis, commodity cost increases remain greater than price increases.

The Company may not be able to realize the estimated cost savings or productivity improvements from our materials management and Six Sigma initiatives, respectively.

Our materials management initiative is centered on leveraging collective buying power on a global basis to improve purchasing efficiency, reduce the number of suppliers and improve the supply chain. Materials management also involves working with suppliers to develop effective components with lower part counts and easier assembly, resulting in improved quality and reduced costs. Material costs represent a significant portion of total costs. Our inability to successfully execute the materials management initiative could negatively affect the Company s business and results of operations.

Similarly, our Six Sigma initiative is structured to achieve significant productivity improvements in business and manufacturing processes through data driven decisions. Since 2000, more than 20,000 employees have been trained in Six Sigma tools that have contributed approximately $190 million in productivity gains. To the extent that we are not able to increase productivity at planned levels our results of operations could be adversely effected.

If there are changes in the environmental, health or other regulations that affect one or more of the Company s current products or future products, it could have a negative impact on the Company s business and results of operations.

We are currently governed by various environmental, health and other regulations in the U.S. and internationally. While we have a number of proactive programs underway to minimize the impact of our products on the environment and believe that we are in substantial compliance with environmental laws and regulations, we cannot predict whether there will be changes in the environmental regulations affecting our products. Currently, there are regulations which require the phasing out of certain refrigerants such as chlorofluorocarbons (CFCs) and

Table of Contents

hydrochlorofluorocarbons (HCFCs), which are used in the products manufactured and serviced by our Air Conditioning Systems and Services segment. If we are unsuccessful in modifying certain of our products to be compatible with the substitute refrigerants, it could have a negative impact on our business and results of operations. There are also federal and state statutes which impose energy efficiency standards for certain of our air conditioning systems. If we are unable to produce air conditioning systems that meet these statutory energy efficiency requirements, it could have a negative impact on our ability to compete.

Any changes in the environmental, health or other regulations which affect our current or future products could have a negative impact on our business if we are unable to adjust our product offering to comply with such regulatory changes. In addition, it is possible that we will incur increased costs as a result of complying with health and environmental regulations.

Changes to the Company s asbestos liability or insurance receivable could impact our results of operations.

In the fourth quarter of 2004, we recorded a liability on our balance sheet for all pending and unasserted potential future asbestos indemnity claims. We also have recorded a receivable with respect to expected insurance recoveries related to such liability. The amounts that we recorded for asbestos-related liability and insurance-related receivables rely on assumptions that are based on currently known facts. Our actual expenses and insurance recoveries could be significantly higher or lower than those recorded if the assumptions that we used or relied upon vary significantly from actual results or if U.S. tort legislation governing asbestos claims is passed. We review these assumptions on a periodic basis to determine whether adjustments are required to our recorded asbestos-related liability and related insurance receivable. Adjustments, if any, to the estimate of our recorded asbestos-related liability and/or insurance receivable could negatively impact the results of operations for the period or periods in which such adjustments are made. See Note 14 of Notes to Financial Statements for additional information regarding asbestos.

If the Company is not able to maintain good relations with our unionized employees, we could suffer work stoppages that could negatively affect our business and results of operations.

Approximately 53% of our employees, as of December 31, 2005, are members of labor unions. We have 16 major labor union contracts in the Americas. We also have 30 major labor contracts outside of North America. At least 8 of our union contracts will expire in 2006, and we will be required to renegotiate those in the coming year. While we do not anticipate any problems in renegotiating the labor contracts that could negatively affect operational results, we cannot ensure that we will be able to reach an agreement with the unions. Any disputes with the labor unions could result in work stoppages or other labor protests which could disrupt our operations. Any such labor disputes could negatively affect our business and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

As of February 21, 2006, the Company conducted its manufacturing activities through 99 plants in 27 countries of which the principal facilities are:

Business Segment	Location	Major Products Manufactured at Location
Air Conditioning Systems and Services	Clarksville, TN	Commercial unitary air conditioning
	Fort Smith, AR	Unitary air conditioning
	La Crosse, WI	Applied air conditioning systems
	Lexington, KY	Air handling products
	Macon, GA	Commercial air conditioning systems
	Pueblo, CO	Applied air conditioning systems
	Lynn Haven, FL	Commercial unitary air conditioning
	Trenton, NJ	Residential gas furnaces and air handlers
	Tyler, TX	Residential air conditioning
	Vidalia, GA	Residential air handlers
	Sebastian County, AR	Package air conditioners, heat pumps and gas electrics
	Columbia, SC	Coils
	Monterrey, Mexico	Reciprocating and scroll compressors
	Charmes, France	Applied air conditioning systems
	Golbey, France	Unitary air conditioning systems
	Taicang, China	Applied and unitary air conditioning systems
	GuangDong, China	Coils and air systems
	Taipei, Taiwan	Unitary air conditioning systems
	Zhongshan, China	Unitary products and air handling units
Bath and Kitchen	Salem, OH	Enameled-steel fixtures and acrylic bathtubs
	Tiffin, OH	Vitreous china
	Jundai, Brazil	Vitreous china
	Sevlievo, Bulgaria	Vitreous china and brass fittings
	Teplice, Czech Republic	Vitreous china
	Hull, England	Vitreous china and acrylic bathtubs
	Rugeley, England	Vitreous china
	Valencia, Spain	Vitreous china
	Dole, France	Vitreous china
	Revin, France	Vitreous china and bathtubs
	Wittlich, Germany	Brass fittings
	Orcenico, Italy	Vitreous china
	Brescia, Italy	Vitreous china
	Roccassecca, Italy	Vitreous china
	Aguascalientes, Mexico	Vitreous china
	Monterrey, Mexico	Brass fittings
	Tlaxcala, Mexico	Vitreous china
	Mexico City, Mexico	Vitreous china
	West Java, Indonesia	Vitreous china
	Beijing, China	Enameled-steel fixtures
	Guangdong Province, China	Vitreous china, fittings and enameled-steel fixtures
	Shanghai, China	Vitreous china
	Tianjin, China	Vitreous china
	Seoul, South Korea	Brass fittings
	Pathumthani, Thailand	Vitreous china
	Ramadan City, Egypt	Acrylics

Vehicle Control Systems	Campinas, Brazil	Vehicle control systems
	Leeds, England	Vehicle control systems
	Claye-Souilly, France	Vehicle control systems
	Hanover, Germany	Vehicle control systems
	Mannheim, Germany	Foundation brakes
	Gronau, Germany	Compressors and hydraulics
	Wroclaw, Poland	Vehicle control systems
	Qingdao, China	Automated braking systems

All of the plants described above are owned by the Company or a subsidiary except for the properties located in Taipei, Taiwan; Monterrey, Mexico (Air Conditioning); and Claye-Souilly, France, which are leased. The Company considers that its properties are generally in good condition, are well maintained, and are generally suitable and adequate to carry on the Company s business. In 2005, the Company s manufacturing plants, taken as a whole, operated moderately below capacity.

The Company also owns or leases warehouse and office space for administrative and sales staff. The Company headquarters, which is leased, is located in Piscataway, New Jersey.

ITEM 3. LEGAL PROCEEDINGS

The Haynes Litigation

As previously reported, in October 1999, in *Haynes Trane Service Agency, Inc. and Frederick M. Haynes v. American Standard, Inc., d/b/a The Trane Company,* in the United States District Court for the District of Colorado, verdicts were returned against the Company for a total of $18 million on the claim that it wrongfully terminated distribution agreements. On August 28, 2002, the appellate court ruled in favor of the Company and vacated the $18 million judgment. The appellate court also reinstated the Company s counterclaims, including fraud, and remanded to the trial court limited portions of Haynes initial claims. On December 7, 2005, a jury in the United States District Court in Colorado returned a favorable verdict for the Company in its lawsuit alleging fraud by Haynes Trane Service Agency, Inc. (HTSA), a former distributor of the Company s unitary air conditioning business. Damages will be determined by the court at a later date. The jury also returned an advisory verdict recommending that the court award Fred Haynes $4.78 million, because the jurors concluded that the Company had wrongfully terminated an agency agreement with Mr. Haynes, the owner of HTSA, after discovering HTSA s fraudulent activities in 1995. The trial judge is now responsible for issuing a ruling on the merits of this claim.

The European Commission Investigation

In November 2004, the Company was contacted by the European Commission as part of an industry-wide investigation into alleged infringement of European Union competition regulations relating to the distribution of bath and kitchen fittings and fixtures in certain European countries. In November 2005, the European Commission sent the Company a written request for information. The company is cooperating fully with the investigation.

Bath & Kitchen Fixtures Antitrust Litigation and U.S. Department of Justice Competition Investigations

On February 23, 2005, the Company received a grand jury subpoena from the Antitrust Division of the U.S. Department of Justice seeking information primarily related to the sale and marketing of bathroom fittings by its European affiliates from January 1997 to the present. The Company is cooperating fully with this investigation. As previously reported, in February 2005, the Company was named as a defendant in several lawsuits filed in the United States District Court for the Eastern District of Pennsylvania and in various state courts in the State of California alleging that the Company and certain of its competitors conspired to fix prices for fittings and fixtures in the U.S. The federal cases have been consolidated (*In re Bath & Kitchen Fixtures Antitrust Litigation, No. 05-cv-00510)*, and in June 2005 the plaintiffs filed an amended complaint in the federal action alleging that the Company conspired to fix prices for fixtures in the U.S. The amended complaint deletes reference to fittings and identifies a somewhat different group of alleged co-conspirator co-defendants. On September 22, 2005, the Company filed a motion to dismiss the complaint in the federal action, which was argued before the trial court on January 26, 2006. The other defendants in the federal action have also filed motions to dismiss. The California cases were coordinated in the San Francisco Superior Court (*State Indirect Purchaser Bathroom Fittings Litigation, Cal. J.C.C.P. No. 4115*), and in December 2005, the plaintiffs filed an amended complaint in the California action alleging that the Company had conspired to fix prices for fixtures and fittings in the U.S. The amended complaint identifies a somewhat different group of alleged co-conspirator co-defendants and purports to add a new and significantly larger class of plaintiffs. The Company removed the consolidated California action to the United States District Court for the Northern District of California on January 3, 2006. Currently pending is plaintiffs motion to remand the action back to San Francisco Superior Court, which the Company has opposed. None of these civil suits specify the amount of damages claimed. The Company believes that these lawsuits are the result of press reports about the

European Commission s investigation. The Company further believes that the lawsuits are without merit and will defend them vigorously.

Table of Contents

The French Competition Council s Competition Claims

As previously reported, on February 16, 2005, the French Competition Council issued a statement of objections (notification de griefs) addressed to more than 100 separate enterprises, including a Bath and Kitchen subsidiary of the Company, and to various trade associations and purchasing organizations active in the sanitary, heating, air-conditioning and canalization equipment and installation sectors. The addressees of the statement of objections are alleged to have restricted the distribution of products to large do-it-yourself retailers and to small installer cooperatives in France in the period 1993 through 1998 in violation of French and European Union competition regulations. By November 2005, the Rapporteur General for the Competition Council recommended that the Competition Council dismiss all claims against the Company s Bath and Kitchen subsidiary. The Company is vigorously defending itself against these allegations.

Asbestos Litigation

Over the years, the Company has been named as a defendant in numerous lawsuits alleging various asbestos-related personal injury claims arising primarily from its historical sales of boilers and railroad brake shoes.

In these asbestos-related lawsuits, the Company is usually named as one of a large group of defendants. Many of these lawsuits involve multiple claimants, do not specifically identify the injury or disease for which damages are sought and/or do not allege a connection between any Company product and a claimed injury or disease. As a result, numerous lawsuits have been placed, and may remain on, inactive or deferred dockets, which some jurisdictions have established.

Accounting for Asbestos Liability

As described in greater detail in Note 14. Warranties, Guarantees, Commitments and Contingencies, until the fourth quarter of 2004, the Company recorded a liability only for filed asbestos claims. Costs associated with claims that might be filed in the future were not recorded because the Company did not believe its history and experience with asbestos-related litigation was sufficient to allow it to make a reasonable estimate of this liability. However, in the fourth quarter of 2004, the Company believed that it had sufficient relevant and reliable information to reasonably estimate a total future liability for asbestos-related claims. Accordingly, in the fourth quarter of 2004, the Company retained an outside consultant to assist it in calculating an estimate of the Company s total liability for pending and unasserted potential future asbestos-related claims. As a result, in the fourth quarter of 2004, the Company increased its recorded liability for asbestos claims by $616 million, from $83 million to $699 million, based upon the consultant s analysis of the Company s total estimated liability for pending and unasserted potential future claims through 2055, which was the consultant s reasonable best estimate of the time it would take to resolve all of the Company s asbestos-related claims. This amount was calculated on a pre-tax basis, was not discounted for the time value of money, and excluded legal fees. At December 31, 2005, the Company engaged the consultant to perform a comprehensive review of the updated claims data. As a result of this review, the Company concluded that the estimated liability for pending and unasserted potential future asbestos related claims from 2004 remains the best estimate as of December 31, 2005. The asbestos indemnity liability decreased by $13.4 million in 2005, from $699.4 million as of December 31, 2004 to $686.0 million as of December 31, 2005. This decrease is due to claims payments made during the year.

Asbestos Claims Activity

From receipt of its first asbestos claim more than twenty years ago to December 31, 2005, the Company has resolved 33,690 claims. The total amount of all settlements paid by the Company (excluding insurance recoveries) and by its insurance carriers is approximately $64.2 million, for an average payment per resolved claim of $1,905. During 2005, 10,544 new claims were filed against the Company, 5,044 claims were dismissed and 659 claims were settled. At December 31, 2005, there were 128,197 open claims pending against the Company. Because claims are frequently filed and settled in large groups, the amount and timing of settlements, as well as the number of open claims, can fluctuate significantly from period to period.

Table of Contents

Asbestos Insurance Recovery The NJ Litigation

As previously disclosed, the Company is in litigation against certain carriers whose policies it believes provide coverage for asbestos claims. The insurance carriers named in this suit are challenging the Company s right to recovery. The Company filed the action in April 1999 in the Superior Court of New Jersey, Middlesex County, against various of its primary and lower layer excess insurance carriers, seeking coverage for environmental claims (the NJ Litigation). The NJ Litigation was later expanded to also seek coverage for asbestos related liabilities from twenty-one primary and lower layer excess carriers and underwriting syndicates. On September 19, 2005, the court granted the Company s motion to add to the NJ Litigation 16 additional insurers and 117 new insurance policies. The court also required the parties to submit all contested matters to mediation.

Asbestos Receivable 2005 Insurance Settlements

The Company estimates and records an asbestos receivable for amounts due to the Company for previously settled and paid claims, the reimbursable portion of incurred legal expenses, and the probable reimbursements relating to its estimated liability for pending and future claims. At December 31, 2005, the asbestos receivable was $390.0 million, reduced from $405.6 million at December 31, 2004. The reduction was primarily the result of cash received from insurance companies of $23.7 million and refinements to solvency rates and settlements of $20.4 million. This reduction was partially offset by refinements to other data, including claims data, and policy information of $20.5 million and adjustments to reflect the recoverable portion of incurred legal expenses of $8.0 million. In February 2005, the Company settled with Equitas for $84.5 million to buy-out the participants of certain underwriters in pre-1993 Lloyd s, London policies included in the Company s insurance coverage. This settlement was the Company s most significant settlement to date. During 2005, $14.4 million of this amount was received by the Company to cover asbestos and environmental costs, and $70.1 million remains in a trust expiring January 3, 2007. If, during the trust period, there is U.S. federal legislation that takes asbestos claims out of the courts and requires Equitas to make a duplicate payment to the asbestos trust, the remaining balance in the trust will be disbursed to Equitas minus some allowance to the Company for claim settlements that may be made or have been made in the period January 1, 2005 through January 3, 2008. If there is no such legislation by January 3, 2007, the balance of funds in the trust, including accrued interest, will be disbursed to the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the Company s shareholders during the fourth quarter of 2005.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information as of February 24, 2006 with respect to each person who is an executive officer of the Company:

Name	Age	Position with Company
Frederic M. Poses	63	Chairman and Chief Executive Officer
John M. Carroll	45	Vice President and General Auditor
Brad M. Cerepak	46	Vice President and Controller
Lawrence B. Costello	58	Senior Vice President, Human Resources

G. Peter D Aloia	61	Senior Vice President and Chief Financial Officer
James E. Dwyer	47	Senior Vice President, and President, Bath and Kitchen
Jacques Esculier	46	Vice President, and President, Vehicle Control Systems
Mary Elizabeth Gustafsson	46	Senior Vice President, General Counsel and Secretary
W. Craig Kissel	54	Senior Vice President, and President, Trane Commercial Systems
David S. Kuhl	45	Vice President and Treasurer
R. Scott Massengill	43	Vice President and Chief Financial Officer, Residential Systems
David R. Pannier	55	Vice President, and President, Residential Systems
Richard S. Paradise	44	Vice President and Chief Financial Officer, Bath and Kitchen

Table of Contents

Each officer of the Company is elected by the Board of Directors to a term of office expiring on the date of the first Board meeting after the Annual Meeting of Shareholders next succeeding his or her election or such officer s earlier resignation or removal.

Set forth below is the principal occupation of each of the executive officers named above during the past five years.

Mr. Poses was elected as a Director in October 1999 and as Chairman and Chief Executive Officer effective January 1, 2000. Prior to assuming that position, Mr. Poses was President and Chief Operating Officer at AlliedSignal Inc. (now known as Honeywell). Previously he was President of AlliedSignal s Engineered Materials sector from 1988 to 1998 and served as a Director of that company from 1997 until 1999. Mr. Poses is a Director of Raytheon Company and Centex Corporation.

Mr. Carroll was elected vice president and general auditor in October 2005. He joined the Company in January 2002 as general auditor. Prior to joining the Company, Mr. Carroll worked for 12 years at Bristol-Myers Squibb. During his tenure, he held a variety of senior financial management positions, including assistant treasurer, vice president - finance, for the global pharmaceutical technical operations division, and vice president - financial analysis and reporting for the worldwide medicines group. He also held the position of general auditor of Bristol-Myers Squibb for five years.

Mr. Cerepak was elected Vice President and Controller in August 2005. He joined the Company in 2003 as vice president and chief financial officer for Bath and Kitchen. Prior to that, he spent nine years with Allied Signal, Honeywell International s predecessor, where he held several finance leadership positions. From 2001 through 2003, he served as the vice president and chief financial officer for Honeywell s Automation and Control Solutions business. From 1995 to 2001, he held various finance leadership positions for Allied Signal s Consumer Products Group, Automotive Group and Friction Materials Group.

Mr. Costello was elected Senior Vice President, Human Resources, effective June 2000. From April 1994 until that date, he served in various capacities at Campbell Soup Company, including Senior Vice President, Global Human Resources.

Mr. D Aloia was elected Senior Vice President and Chief Financial Officer effective February 2000. Prior to that he was employed by AlliedSignal Inc., most recently serving as Vice President-Business Development. He spent 27 years with AlliedSignal Inc. in diverse management positions, including Vice President-Taxes, Vice President and Treasurer, Vice President and Controller, and Vice President and Chief Financial Officer for the Engineered Materials sector. Mr. D Aloia is a Director of FMC Corporation and AirTran Airways.

Mr. Dwyer was elected Senior Vice President of the Company and President, Bath and Kitchen effective September 2004. Prior to joining the Company, he spent a decade in senior executive roles with major consumer enterprises, including PepsiCo Inc., where he served as President of Tropicana Products, North America, Vice President of Merger Integration and Senior Vice President, Marketing North America during his career.

Mr. Esculier was elected President of Vehicle Control Systems effective January 1, 2004. He joined the company in June 2002 as Vice President of Trane s International Commercial Systems business in Europe. Prior to that he spent more than six years in a variety of leadership positions with AlliedSignal Inc./Honeywell.

Ms. Gustafsson was elected Senior Vice President, General Counsel and Secretary of the Company effective January 2005. From January 2003 until January 2005, Ms. Gustafsson served as chief counsel for the Air Conditioning Systems and Services business of the Company. Upon joining the Company in September 2001 until January 2003, she served as chief corporate counsel with responsibility for corporate legal activities for the Company. Prior to joining the Company, Ms. Gustafsson spent five years with AlliedSignal Inc./Honeywell where she held positions of increasing responsibility including chief counsel to AlliedSignal Inc./Honeywell s $1 billion electronic materials business.

Mr. Kissel was elected Senior Vice President of the Company in January 1998 and serves as President of Trane Commercial Systems, effective January 2004. From 1998 through December 2003 he served as President of

Vehicle Control Systems. Before that he was Vice President of Air Conditioning Systems and Services Unitary Products Group, and later named Group Executive.

Mr. Kuhl was elected Vice President and Treasurer of the Company in November 2005. He joined the Company in March 2002 as an assistant treasurer. Prior to joining the Company, he worked for DuPont as chief financial officer of the Nutrition and Health business unit.

Mr. Massengill was elected Vice President and Chief Financial Officer, Residential Systems in December 2005. Prior to that, he was Vice President and Treasurer of the Company and responsible for Business Services Operations. He was Assistant Treasurer of Bristol-Myers Squibb Company from 1999 to March 2001 and before that he was with AlliedSignal Inc. and Exxon Corporation (now ExxonMobil) in various financial management positions.

Mr. Pannier was elected Vice President of the Company in January 1998, and since January 2002 has served as President, Residential Systems. From January 1998 until January 2002 he served as Group Executive, North American Unitary Products Group.

Mr. Paradise was elected Vice President of the Company and Chief Financial Officer of Bath and Kitchen in August 2005. From July 2002 until August 2005, he was Vice President and Controller of the Company. He joined the Company as Assistant Controller in February 2000. Prior to that he spent ten years with AlliedSignal Inc. in a variety of financial management positions, including Director of Six Sigma and Credit, after beginning his career with PricewaterhouseCoopers (formerly PriceWaterhouse) as an auditor.

PART II

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

The common stock of the Company is listed on NYSE under the symbol ASD. The common stock was first traded on the NYSE on February 3, 1995 concurrent with the underwritten initial public offering of shares of the Company s common stock. Prior to the offering there was no established public trading market for the Company s shares.

The Company s Restated Certificate of Incorporation, as amended, authorizes the Company to issue up to 560,000,000 shares of common stock, par value $.01 per share, and 2,000,000 shares of preferred stock, par value $.01 per share, of which the Board of Directors designated 900,000 shares as a new series of Junior Participating Cumulative Preferred Stock. The Company also has a Rights Agreement. Each outstanding share of common stock has associated with it one right to purchase a specified amount of Junior Participating Cumulative Preferred Stock at a stipulated price in certain circumstances relating to changes in ownership of the common stock of the Company.

On May 27, 2004, the Company completed a three-for-one common stock split.

As of February 21, 2006, there were 734 holders of record of the Company s common stock. A significant number of the outstanding shares of common stock which are beneficially owned by individuals or entities are registered in the name of a nominee of The Depository Trust Company, a securities depository for banks and brokerage firms. The Company believes that there are approximately 62,446 beneficial owners of its common stock as of February 15, 2006.

The Company paid its first dividend in March 2005. The Company declared dividends of $126.4 million in 2005 on its common stock. In February 2006, the Board of Directors declared a first quarter 2006 dividend of $0.18 per share, an increase from $0.15 per share that was paid in each quarter of 2005.

Table of Contents

Set forth below are the high and low sales prices for shares of the Company s common stock for each quarterly period in 2004 and 2005. The first and second quarter of 2004 prices have been adjusted for the Company s three-for-one stock split. The split became effective May 27, 2004, for holders of record as of May 18, 2004.

	High	Low
2004		
First quarter	$ 38.33	$ 33.10
Second quarter	$ 40.93	$ 33.60
Third quarter	$ 40.55	$ 36.22
Fourth quarter	$ 41.82	$ 34.41
2005		
First quarter	$ 48.39	$ 38.56
Second quarter	$ 47.29	$ 40.82
Third quarter	$ 47.93	$ 41.35
Fourth quarter	$ 47.76	$ 35.01

On December 8, 2005, the Company s Board of Directors approved an additional $500 million to purchase shares of the Company s common stock in the open market. As of February 21, 2006, the unexpended authorization on the current program totaled $353,059,310. The Company plans to expend the majority of the remaining authorized but unexpended amount for share repurchases in 2006. No unexpended amounts remained on prior repurchase programs. A summary of the repurchase activity for 2005 follows. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for a description of the Company s stock repurchase program.

Table of Contents

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
December 31, 2004				$ 62,446,908
January 1-January 31 (b)	1,010,699	$ 39.77	885,700	$ 27,219,801
February 1-February 28	988,900	$ 45.05	988,900	$ 382,669,756(d)
March 1-March 31	1,478,200	$ 47.05	1,478,200	$ 313,125,967
Total first quarter	3,477,799	$ 44.54	3,352,800	
April 1-April 30	563,600	$ 45.54	563,600	$ 287,458,942
May 1-May 31	1,091,300	$ 43.65	1,091,300	$ 239,827,269
June 1- June 30	1,064,100	$ 43.15	1,064,100	$ 193,916,579
Total second quarter	2,719,000	$ 43.84	2,719,000	
July 1-July 31	368,635	$ 43.71	368,635	$ 177,802,731
August 1-August 31	806,335	$ 44.47	806,335	$ 141,941,454
September 1-September 30	427,864	$ 46.28	427,864	$ 122,141,837
Total third quarter	1,602,834	$ 44.78	1,602,834	
October 1-October 31	793,800	$ 38.33	793,800	$ 91,714,329
November 1-November 30	1,893,000	$ 38.89	1,893,000	$ 18,099,652
December 1-December 31	1,380,600	$ 40.31	1,380,600	$ 462,451,970(e)
Total fourth quarter	4,067,400	$ 39.26	4,067,400	
Total through December 31	11,867,033(c)		11,742,034	$ 462,451,970(a)

(a) As of February 21, 2006, the Company had an unexpended authorization by the Board of Directors under its share repurchase program and the majority of the unexpended balance of $353,059,310 under that authorization will be used to repurchase shares during 2006.

(b) Includes 124,999 shares that were returned to the Company by the Chief Executive Officer to satisfy his withholding tax liabilities upon the vesting of 250,000 shares of restricted stock.

(c) All share repurchases other than those described in note (b) were effected in accordance with the Safe Harbor Provisions of Rule 10b-18 of the Securities and Exchange Act.