AMERICAN STANDARD COMPANIES INC
Form 10-K
March 03, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, 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, 2003

[ ] 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 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 an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes [X] No [ ]

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, 2003 was approximately $5.3 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 20, 2004: Common Stock, $.01 par value, 72,225,650 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 4, 2004	Part III

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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 Management s Discussion and Analysis of Financial Condition and Results of Operations-Information Concerning Forward-Looking Statements.

PART I

ITEM 1. BUSINESS

American Standard Companies Inc. is a global, diversified manufacturer of high-quality, brand-name products in three major product groups: air conditioning systems and services (58% of 2003 sales); bathroom and kitchen fixtures and fittings (26% of 2003 sales); and vehicle control systems for heavy and medium-sized trucks, trailers, buses, luxury cars and sport utility vehicles (16% of 2003 sales). American Standard is one of the largest providers of products in each of its three major business segments. The Company s brand names include TRANE® and AMERICAN STANDARD® for air conditioning systems and services, AMERICAN STANDARD®, IDEAL STANDARD®, STANDARD®, PORCHER®, JADO®, ARMITAGE SHANKS®, DOLOMITE®, MELOH®, VENLO®, VENESTA®, SOTTINI® and BORMA® for bath and kitchen products, and WABCO® for vehicle control systems.

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. In 1999 the Company completed an internal reorganization in which American Standard Inc. transferred ownership of essentially all its non-U.S. subsidiaries and their intellectual property rights to another wholly-owned subsidiary of the Company, American Standard International Inc., a Delaware corporation (ASII). American Standard or the Company refers to the Company, or to the Company and American Standard Inc. or ASII, including their subsidiaries, as the context requires.

Overview of Business Segments

American Standard has three business segments: Air Conditioning Systems and Services, Bath and Kitchen and Vehicle Control Systems.

Air Conditioning Systems and Services (Air Conditioning). American Standard is a leading U.S. designer and producer of air conditioning systems and equipment for both domestic and export sales. It also provides control systems, aftermarket service and parts for its products, and performance contracting for the installation and maintenance of heating, ventilation and air conditioning systems. American Standard also manufactures air conditioning systems outside the U.S. Sales to the commercial and residential markets accounted for approximately 73% and 27%, respectively, of Air Conditioning s total sales in 2003. Approximately 60% of Air Conditioning s sales in 2003 were in the replacement, renovation and repair markets. Air Conditioning derived 75% of its 2003 sales in the U.S. and 25% outside. Management believes Air Conditioning is well positioned for growth because of its high-quality, energy-efficient, strong brand-name products; significant existing market presence; the introduction of new products and features such as electronic controls; its broad distribution and servicing presence; conversion to products utilizing refrigerants that meet current or future environmental standards, and expansion of operations throughout the world. Systems capabilities, coupled with equipment, service and parts have allowed Air Conditioning to be active in the growing performance-contracting business as a comfort systems solution provider.

Bath and Kitchen. The Bath and Kitchen segment is a leading producer of bathroom and kitchen fixtures and fittings in Europe, the U.S. and many countries in Latin America and Asia. Its products are marketed through retail and wholesale sales channels for residential and commercial markets. Bath and Kitchen derived 66% of its 2003 sales outside the U.S. and 34% within. Management believes Bath and Kitchen is well positioned for growth because of its strong brands, new products and designs, low-cost manufacturing capability, global distribution and logistics capabilities, and focus on its total bathroom concept. The total bathroom concept encompasses providing customers with integrated suites of products, including sinks, toilets, faucets, tubs, showers, bathroom furniture and accessories.

Vehicle Control Systems. Vehicle Control Systems (WABCO) is a leading manufacturer of electronic controls for braking and control systems for the worldwide commercial vehicle industry. Its largest-selling products are braking control systems and related electronic and other control systems. These include antilock and electronic braking systems (ABS and EBS, respectively), and automated transmission controls and suspension control systems, marketed under the WABCO® name for heavy and medium-size trucks, trailers, and buses. WABCO also sells suspension control systems to manufacturers of luxury cars and sport utility vehicles a growing market. WABCO supplies vehicle manufacturers such as DaimlerChrysler (Mercedes and Freightliner), Volvo (Volvo and RVI), Iveco (Fiat), Scania, PACCAR, Hino, Nissan, Rover and GMC. Management believes that WABCO benefits from its strong market positions in Europe, North America and Brazil and its growing position in Asia. Management also believes WABCO s products are well positioned for growth because of increasing demand for ABS and EBS; sophisticated electronic control systems for automated transmissions; air suspension systems and stability control systems; and automatic climate control and door control systems. WABCO has a strong reputation for technological innovation and is a leading systems development partner with several major vehicle manufacturers.

Company Goals

American Standard has adopted the following performance goals:

Sales growth, including:

- 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, and
- Six Sigma and other productivity-enhancing actions.

Financial goals to improve asset utilization and return on capital, including:

- Improving earnings per share, margins and cash flow,
- Achieving investment grade debt rating,
- Maintaining or lowering the effective tax rate, and
- Debt reduction.

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 supplier logistics. 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 exceeding 50% of total costs, management believes that continued improvements realized through Materials Management could result in substantial savings.

In 2002 and 2003, the Materials Management initiative focused on implementation of processes and training. Management adopted challenging goals for continuous performance improvement. Incremental benefits from this program were approximately $60 million in 2001, $105 million in 2002 and $100 million in 2003. The Company expects increased savings in 2004.

Six Sigma

Six Sigma is a structured approach to achieving significant productivity improvements in business 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 nearly $105 million in productivity gains. During this initial growth phase, productivity gains have nearly doubled each year.

We continue 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 2003, we had 37 Master Black Belts, 532 Black Belts and 3,417 Green Belts who were certified or in training. To achieve such a designation, specific projects, timelines, milestones and savings must be achieved. We are continually broadening the Six Sigma approach to cover functions beyond manufacturing. In the past two years we have 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 companywide goals described above. Management believes the attainment of these goals will result in improved financial performance and enhanced shareholder value.

Air Conditioning Systems and Services Segment

American Standard s Air Conditioning Systems and Services products are marketed under the TRANE® and AMERICAN STANDARD® names. Air Conditioning, with revenues of $4.975 billion in 2003, accounted for 58% of Company sales and 62% of segment income. Air Conditioning derived 25% of 2003 sales from outside the U.S. Approximately 60% of Air Conditioning s sales in 2003 were in the replacement, renovation and repair markets.

Air Conditioning competes in all of its markets on the basis of using knowledge to provide total solutions, including service, product quality and reliability, technological leadership, energy efficiency and price/value.

Air Conditioning manufactures two general types of air conditioning systems. The first, called unitary, is sold for residential and commercial applications, and is a factory-assembled central air conditioning system which generally encloses in one or two units all the components to cool, heat, filter, humidify, dehumidify, and move air in a ducted system. The second, called applied, is typically custom-engineered for commercial use and involves on-site installation of several different components of the air conditioning system. Air Conditioning is one of the largest global manufacturers of both unitary and applied air conditioning systems.

Product and marketing programs continue to be developed to increase penetration in the growing replacement, renovation and repair businesses. Much of the equipment sold in the fast-growing air conditioning markets of the 1960s and 1970s has reached the end of its useful life. Also, equipment sold in the 1980 s may be replaced earlier than originally expected with higher-efficiency products developed to meet new efficiency standards and to capitalize on the availability of refrigerants that meet current and future environmental standards.

Many of the air conditioning systems manufactured by Air Conditioning utilize HCFCs, and in the past utilized CFCs as refrigerants. Various domestic and international laws and regulations, principally the 1990 Clean Air Act amendments and the Montreal Protocol, require the eventual phase-out of the production of these refrigerants. Phase-in of substitute refrigerants will encourage replacement or modification of the air conditioning equipment already installed, which management believes creates an ongoing market opportunity. In order to ensure that Air Conditioning products will be compatible with the substitute refrigerants, Air Conditioning has been working closely with the manufacturers that are developing substitute refrigerants. Air Conditioning has also been active in supporting industrywide efforts to transition selectively or when appropriate to these new refrigerants in an orderly and sensible fashion while giving consideration to key environmental issues such as ozone depletion and global warming (greenhouse gas effects). See General Regulations and Environmental Matters.

Certain federal and state statutes, including the National Appliance Energy Conservation Act of 1987, as amended, impose energy efficiency standards for certain of Air Conditioning s air conditioning systems. Air Conditioning is a leader in developing energy-efficient products that meet or exceed these standards. However, providing more energy-efficient products will require additional research and development expense and capital expenditures for air conditioning manufacturers to continue to offer energy-efficient product choices to the customer.

The Company, Heatcraft Technologies Inc. (a subsidiary of Lennox International Inc.) and Copesub, Inc., (a subsidiary of Emerson Electric Co.) are partners in Alliance Compressors (Alliance), a joint venture that manufactures compressors for use in air conditioning and refrigeration equipment. The Company and Heatcraft Technologies Inc. each own a 24.5% partnership interest and Copesub, Inc. owns the balance. Alliance develops, manufactures, markets and sells, primarily to the Company and Lennox, scroll compressors utilized mainly in residential central air conditioning applications. Alliance operates principally from a facility in Natchitoches, Louisiana.

In November 2001, the Company entered an alliance with Daikin, a leading Japanese commercial air conditioning manufacturer, to sell each other s complementary product lines. Through the alliance, the Company and Daikin are able to provide their customers a complete line of heating, ventilation and air conditioning products, services and solutions for industrial, commercial and residential markets. Daikin has strong global market positions in ductless commercial air conditioners as well as in small chillers, which complement Air Conditioning s product lines. Various cross-sourcing arrangements have been started by the companies.

As of December 31, 2003, Air Conditioning Systems and Services employed approximately 26,200 people and had 28 manufacturing plants in 9 countries.

Commercial Systems and Services

Commercial systems and services (commercial systems), which accounted for 76% of Air Conditioning Systems and Services 2003 sales, encompasses the manufacture, distribution and servicing of applied and commercial unitary air conditioning systems and parts throughout the world. The Company also provides performance contracting arrangements that guarantee energy savings. These products and services are for air conditioning applications in commercial, industrial, institutional and large residential buildings. Approximately 67% of commercial system sales are in the U.S. and 33% in international markets. Other major suppliers of commercial systems are Carrier, York and McQuay.

In the U.S. and Canada, Air Conditioning markets its commercial systems, parts and services through 82 district sales and service offices, 45 of which are company-owned and 37 of which are franchised. In addition, some commercial unitary products are sold through independent wholesale distributors and dealer sales offices. Outside the U.S., Air Conditioning also has an extensive network of 144 sales and service agencies, both company-owned and franchised, to sell products and provide maintenance, service and parts. Overall, the Company estimates that commercial equipment markets declined 2% in 2003 following declines of 10% in 2002 and 8% in 2001.

Commercial systems has a significant manufacturing and distribution presence outside North America. In the Asia-Pacific region, it has manufacturing operations in China, Malaysia and Taiwan, and a sales and manufacturing joint venture in Thailand. In Brazil, it has a manufacturing plant and distribution operations. In Europe, it operates plants in Epinal and Charmes, France, and in Colchester, U.K. It also has a joint venture in Egypt that serves markets in the Middle East. Commercial systems also continues to expand its international distribution network.

For commercial systems, Air Conditioning uses its considerable knowledge and expertise to provide completely for its customers needs. Commercial systems provides equipment, controls, service, parts and performance contracting. During the last five years, Air Conditioning continued to introduce new applied products, broadening its line of high-efficiency centrifugal chillers, introducing new water-cooled series R chillers, expanding the air-cooled series R chiller line and introducing a new indoor central station air handler, a new water source heat pump and a new line of low-pressure air handlers. Sales of commercial systems that automatically control a building s performance, including energy consumption and air quality, continue to grow as a percentage of total sales with new product introductions such as Tracer Summit®, Tracker and wireless thermostats. Systems capabilities, combined with equipment, service and parts have allowed Air Conditioning to be active in the performance-contracting business as a comfort systems solution provider with guaranteed energy savings in certain cases. One of the ways Air Conditioning provides complete solutions to customers heating, ventilation and air conditioning needs is through its EarthWise custom-engineered systems. An EarthWise solution combines optimal design of the equipment, systems, software controls and long-term management. An EarthWise system addresses the customers needs in providing safe, efficient heating and cooling at the lowest possible cost, both for the initial system and over its lifetime. New industry wide guidelines covering chiller efficiency were instituted in October 2001. Management believes that Air Conditioning s chiller efficiency will provide a competitive opportunity as these guidelines are adopted by all 50 states over the next few years.

During the past five years Air Conditioning also successfully introduced several new commercial unitary products and their respective controls, including: an ultra-high-efficiency packaged air conditioner; modulating gas and variable frequency drive large rooftop units; and rooftop units with special features that appeal to national accounts. The commercial unitary business also concentrated on indoor air quality with new products, product enhancements and new capabilities for existing products. For example, a packaged fresh air unit was introduced that provides economical, precise dehumidification while providing 100% fresh, outside air for dilution and removal of indoor air contaminants. Products representing 75% of commercial unitary sales were introduced at higher efficiency levels, meeting or exceeding ASHRAE efficiency standards. These models were also upgraded to provide enhanced indoor air quality. Air Conditioning introduced a new commercial unitary product in 2002 named Precedent with capacities from 2 to 10 tons. Precedent provides improved indoor air quality and higher efficiency, is easier to configure, easier to install and less expensive to manufacture, having 20% fewer parts and being 30% smaller than the products it replaces. A new packaged terminal air conditioner is believed by the Company to be the industry s quietest. A new platform of variable air volume terminal products was introduced in 2003, providing operating efficiency with 55% fewer parts and 25% fewer process steps. The technology provides improved acoustics along with increased market coverage with additional sizes and capabilities.

Residential Systems

Residential systems (residential systems), which accounted for 24% of Air Conditioning Systems and Services 2003 sales, encompasses the development, manufacture, marketing and distribution of unitary air conditioning products and furnaces for residential applications, primarily in North America. Residential system products are marketed under the TRANE® and AMERICAN STANDARD® brand names. Sales of residential systems have benefited significantly from the growth of the replacement market for residential unitary air conditioning systems in North America. The Company estimates that the overall residential air conditioning and furnace markets grew by 2% in 2003, following gains of 9% and 5%, respectively, in 2002. Other major suppliers in the residential market are Carrier, York, Rheem, Lennox and Goodman Industries.

Residential unitary products range from 1 to 5 tons and include air conditioners, heat pumps, air handlers, furnaces, coils and related controls and accessories. These products are sold through independent wholesale distributors and Company-owned sales offices with over 340 stocking locations to dealers and contractors who sell and install the equipment. Residential products are also well positioned in the retail sales channel through an arrangement with Home Depot, a major home improvement center, through which certain central heating and air conditioning systems are marketed to residential customers.

In recent years, Air Conditioning successfully introduced several new residential products including: a line of multi-stage cooling and heat pump units offering the industry s highest efficiencies; and an ultra-high-efficiency gas furnace with variable speed airflow and gas combustion components. In the fourth quarter of 2001, Air Conditioning launched a major new residential split-system cooling and heat pump product that competes in a market covering about 50% of the total residential air conditioning market in North America. This new product line, with capacities of 1 to 5 tons, has a very consumer-oriented design and is of higher quality and efficiency. It is also easier to install and operate, utilizes refrigerants which meet current and future environmental standards and costs less to manufacture, requiring 60% fewer parts than the products it replaces.

Segment reporting for Air Conditioning

The Company s air conditioning segment is organized and managed as two operating divisions: Trane Commercial Systems (TCS), a global business, and Residential Systems (RS), a North American regional business. TCS manufactures and distributes, on a global basis, commercial applied and commercial unitary equipment, services and parts for commercial and large residential applications. TCS also distributes residential products outside North America. RS manufactures primarily residential products, and distributes both commercial unitary and residential products in North America. RS brings focus and emphasis to a separate North American distribution channel through which both commercial unitary and residential products are sold. Since TCS and RS both sell residential and commercial unitary products, they are not organized on a purely product-line basis. Approximately 15% of RS sales are for commercial applications.

Management discusses Air Conditioning s operations in Management s Discussion and Analysis of Financial Condition and Results of Operations as a single segment, and provides additional information about its principal product lines commercial systems and services, and residential systems and services, as described above.

Service and Parts Initiatives

Air Conditioning recognizes the value of providing a convenient and reliable source of repair parts to service air conditioning products and systems. In support of current and future Air Conditioning customers, the Company has been expanding the number of locations and to provide easy access to parts needed to maintain and repair all products that Air Conditioning sells or services on a worldwide basis. In addition, Air Conditioning offers annual service agreements and long-term partnership arrangements to customers.

Bath and Kitchen Segment

In 2003, Bath and Kitchen, with revenues of $2.235 billion, accounted for 26% of the Company s sales and 17% of its segment income. Bath and Kitchen derived 66% of its total 2003 sales from operations outside the U.S.

Bath and Kitchen sales were 51% from chinaware fixtures, 28% from fittings (typically brass), 10% from tubs, with the remainder from related bath and kitchen products. Throughout the world these products are generally sold through wholesalers and distributors and installed by plumbers and contractors. In the U.S., a significant and growing number of products are also sold through home improvement centers. In total, sales to the residential market account for approximately 80% of Bath and Kitchen sales, with sales to the commercial and industrial markets providing the remainder.

Bath and Kitchen operates through three primary geographic groups: Europe, Americas and Asia.

Bath and Kitchen sells products in Europe primarily under the brand names IDEAL STANDARD, JADO, ARMITAGE SHANKS, DOLOMITE, PORCHER, MELOH, VENLO, VENESTA, SOTTINI and BORMA. It manufactures and distributes bathroom and kitchen fixtures and fittings through subsidiaries or joint ventures in Germany, Italy, France, the U.K., Greece, the Czech Republic, Bulgaria and Egypt and distributes products in other European countries.

Bath and Kitchen Americas Group manufactures bathroom and kitchen fixtures and fittings selling under the brand names AMERICAN STANDARD, STANDARD, PORCHER and JADO (manufactured in Europe) in the U.S. and under the brand names AMERICAN STANDARD, IDEAL STANDARD, and STANDARD through the Company s wholly owned operations in Mexico, Canada and Brazil and its joint ventures in Central America and the Dominican Republic.

In Asia, Bath and Kitchen manufactures bathroom and kitchen fixtures and fittings, selling under the names AMERICAN STANDARD, IDEAL STANDARD, and STANDARD through the Company s wholly owned operations in South Korea and Indonesia, and its majority-owned operations in Thailand, the Philippines and Vietnam. The group also operates in China through a majority-owned joint venture, which has ownership interests in seven joint ventures.

The Company s bath and kitchen products are sold in the replacement and remodeling market and the new construction market. The replacement and remodeling market accounts for about 63% of the Company s European and U.S. sales and about 20% of the sales in Asia, where there is more growth in new construction. In the U.S., the replacement and remodeling markets have shown substantial growth over the last few years and the Company has benefited from that growth. In Europe the replacement and remodeling markets have historically been more stable than the new construction markets and have shown moderate growth over the past several years. The U.S. residential new construction market grew strongly in 2003 and the two prior years, but the commercial new construction markets were depressed. The commercial new construction and residential new construction markets in Europe have been rather static overall, with the exception of the U.K., which experienced modest growth, and Germany, which declined. The new construction market, in which builders or contractors make product selection, is more price-competitive than the replacement and remodeling market. In the replacement and remodeling market, consumers make the model selections and, therefore, this market is more responsive to quality and design than price, making it the principal market for higher-margin luxury products. Through expansion of manufacturing in low-cost locations, Bath and Kitchen has become more competitive, enabling it to increase sales of products in the lower and middle segments of both the remodeling and new construction markets.

In the U.S., Bath and Kitchen products are marketed through both the wholesale and retail channels. Sales through the retail home center market channel have become a significant part of Bath and Kitchen segment sales (approximately 20% of segment sales in 2003), but represent only approximately 5% of total Company sales.

Bath and Kitchen is also continuing programs to expand its presence in high-quality showrooms and showplaces featuring its higher-end products in certain major countries. These programs, along with expanded sales training activities, have enhanced the image of the Company s products with interior designers, decorators, consumers and plumbers.

In an effort to capture a larger share of the replacement and remodeling market, Bath and Kitchen has introduced a variety of new products, suites and collections designed to suit customer tastes in particular countries. New offerings include additional colors and ensembles, bathroom suites designed by internationally known designers and electronically controlled products. Our new Champion toilet, with America s Best Flushing System, established strong presence and achieved good distribution in the wholesale and retail channels in the last half of 2003 at product margins that are better than the category average. Champion is having a positive impact on sales and margins in both wholesale and retail. Faucet technology programs are focused on anti-leak, anti-scald, filtering and other features to meet emerging consumer and legislative requirements. Sales in 2003 benefited from our expanded faucet business. The total bathroom concept, used successfully in Europe, is being expanded in the U.S. retail channel, by selling integrated suites of products. Examples of these are the Standard Collection at Home Depot, introduced in 2002, and the Sottini suites, introduced near the end of 2002 at Lowe s, and the Retrospect suite introduced in December 2003, also at Lowe s.

Many of the Company s bathtubs sold in the U.S. are made from a proprietary porcelain-on-metal composite, AMERICAST®. Products made with AMERICAST have only one-half the weight of cast iron products and are resistant to breaking and chipping. AMERICAST products are easier to ship, handle and install and are less expensive to produce than cast iron products. Use of this advanced composite has been extended to kitchen sinks and bathroom lavatories. In Europe, a similar composite called IDEALCAST is also used on acrylic-surfaced products.

As of December 31, 2003, Bath and Kitchen employed approximately 27,300 people and, including affiliated companies, had 67 manufacturing plants in 26 countries and sold products in more than 40 countries.

Bath and Kitchen has several major competitors in foreign markets, for the most part operating nationally. Friederich Grohe, the major manufacturer of fittings in Europe, is a pan-European competitor. In Europe, Sanitec and Roca are the major fixtures competitors and, in Asia, Toto is the major competitor. In the U.S., Bath and Kitchen has several major competitors, including Kohler and, in selected product lines, Masco and Fortune Brands

(Moen). Bath and Kitchen competes in most of its markets on the basis of service to customers, product quality and design, reliability and price/value.

Vehicle Control Systems Segment

Operating under the WABCO® name, Vehicle Control Systems designs, manufactures and sells braking and control systems primarily for the worldwide commercial vehicle industry, and derives 78% of its sales in Europe. WABCO s largest-selling products are pneumatic braking control systems and related electronic controls (ABS and EBS) and conventional components for trucks, trailers, buses and sport utility vehicles. In 2003 WABCO, with sales of $1.358 billion, accounted for 16% of the Company s sales and 21% of its total segment income. The Company believes that WABCO is the worldwide technology leader for braking, suspension and transmission controls for commercial vehicles. Electronic controls, first introduced in ABS in the early 1980s, are increasingly applied in other control systems sold to the commercial vehicle industry. WABCO also supplies electronic suspension controls to the luxury car market and sport utility vehicle market.

WABCO s products are sold directly to vehicle and component manufacturers. Spare parts are sold through both original equipment manufacturers and an independent distribution network. Although the business is not dependent on a single or related group of customers, sales of truck braking systems are dependent on the demand for heavy trucks. Some of the Company s largest customers are DaimlerChrysler (Mercedes and Freightliner), Volvo (Volvo and RVI), Iveco (Fiat), Scania, Paccar, Hino, Nissan and Rover. WABCO s principal competitor is Knorr/Bremse. WABCO competes primarily on the basis of customer service, quality and reliability of products, technological leadership and price/value.

The European market for new truck and bus production increased 3% after decreases of approximately 8% in both 2002 and 2001. The Brazilian market increased 10% in 2003 following decreases of 10% in 2002 and 2% in 2001. During the years 2000 through 2003, WABCO has generally outperformed the heavy vehicle manufacturing markets as a whole, primarily from increased content per vehicle and improved market penetration.

In North America, WABCO markets ABS and other vehicle control products through its fifty percent-owned, unconsolidated joint venture with Arvin Meritor Automotive Inc. (Meritor WABCO). Meritor WABCO, which supplies the North American truck manufacturing market, grew significantly from 1997 through 1999, in part because of regulations mandating antilock braking systems on commercial vehicles. Although truck production in North America declined significantly in 2000 and 2001, Meritor WABCO continued to expand its customer base and range of products sold to major truck manufacturers. In 2002, the North American truck market experienced 12% growth as U.S. customers actively purchased vehicles before the change in diesel engine emissions regulations affecting trucks manufactured after October 1, 2002. In 2003, the North American truck market grew 1%. WABCO also sells non-brake-related products directly to manufacturers in North America.

WABCO has developed an advanced electronic braking system, stability control systems, electronically controlled air suspension systems, automated transmission controls, automatic climate-control and door-control systems for the commercial vehicle industry. These systems have resulted in greater sales per vehicle for WABCO. WABCO participates in the passenger car market with an advanced, electronically controlled air suspension system now featured by the three leading German luxury car manufacturers. WABCO has expanded the air suspension system family to other luxury car and sport utility vehicle manufacturers in Europe and North America. A leading European truck manufacturer now includes WABCO electronic controls for automated transmissions in heavy vehicles as standard equipment. The Company believes that automated transmission control will be increasingly important in the industry. In 2001, WABCO began production of its automated transmission system for a new range of heavy-duty trucks introduced in 2002 in Europe by a global truck manufacturer. Other new products under development include further advancements in electronic braking, and stability and safety controls, as well as driveline-control and suspension-control systems.

Vehicle Control Systems is headquartered in Brussels, Belgium. Its principal manufacturing operations are in Germany, France, the United Kingdom, Poland, the Netherlands, Brazil and South Korea. In the U.S., the Meritor WABCO joint venture supplies the North American truck manufacturing market. The Company also has 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), and a majority-owned joint venture in China with MAFF to produce conventional products for the local market and export. In addition, WABCO has minority equity investments in joint ventures in India with TVS Group (Sundaram Clayton Ltd.) and in South Africa.

As of December 31, 2003, WABCO and affiliated companies employed approximately 6,400 people and had 10 manufacturing facilities and 19 sales organizations operating in 25 countries.

Business Segment Data

Information concerning revenues and segment profit 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 14 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 14 of Notes to Financial Statements, which is incorporated herein by reference. Information on backlogs 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.

General

Raw Materials

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 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. Since 2000, the Company has integrated much of its raw materials procurement efforts into its Materials Management initiatives, resulting in lower costs and more efficient supply. The energy and materials required for its manufacturing operations have been readily available, and the Company does not foresee any significant shortages. Also see Company Goals Materials Management.

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®
	MELOH®
	VENLO®
	BORMA®
	CLEARTAP
	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.

Research and Product Development

The Company made expenditures of $192 million in 2003, $185 million in 2002 and $184 million in 2001 for research and product development and for product engineering in its three business segments. The expenditures for research and product development alone were $128 million in 2003, $129 million in 2002 and $133 million in 2001 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, heavy-duty disc brake systems, and additional electronic control systems for commercial vehicles. Air Conditioning Systems and Services research and development expenditures were primarily related to alternative refrigerants, compressors, heat transfer surfaces, air flow technology, acoustics and micro-electronic controls.

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 underway 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 26 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 2003, 2002 and 2001 to evaluate and remediate such 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.

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.

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, ten 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 2003, 2002 and 2001 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 Systems and Services using chlorofluorocarbons (CFCs) and hydrochloroflurocarbons (HCFCs). Production of certain CFCs, HCFCs and other ozone-depleting chemicals is being phased out over various periods of time under regulations that require use of substitute permitted refrigerants in new equipment. 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 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 some of the Company s commercial, residential and light commercial products will require modification for refrigerant substitutes, the Company does not expect any significant problems in complying with this changing regulatory environment.

Certain federal and state statutes, including the National Appliance Energy Conservation Act of 1987, as amended, impose energy efficiency standards for certain of the Company s air conditioning systems. The Company is a leader in developing energy-efficient products that meet or exceed these standards. However, providing more energy-efficient products will require additional research and development expense and capital expenditures for air conditioning manufacturers to continue to offer energy-efficient product choices to the customer.

Employees

The Company employed approximately 60,000 people as of December 31, 2003 (excluding employees of unconsolidated joint venture companies). The Company has 17 major labor union contracts in the Americas (covering approximately 13,200 employees); eight of which were set to expire in 2004 (covering approximately 7,700 employees) of which one was successfully renegotiated in February 2004 (covering approximately 1,000 employees). Six of these contracts expire in 2005 (covering approximately 2,300 employees), and three expire in 2006 (covering approximately 3,000 employees). In addition, there are 18 other contracts covering approximately 500 employees in Air Conditioning Systems and Services sales offices. There can be no assurance that the Company will successfully negotiate the labor contracts expiring during 2004 without a work stoppage. However, the Company does not anticipate any problems in renegotiating these contracts that would materially affect its results of operations.

In March 2002, 450 Air Conditioning Systems and Services employees went on strike for approximately three weeks at the Ft. Smith manufacturing facility and in February 2001, 1,200 Air Conditioning Systems and Services employees went on strike for 30 days at the Lexington, Kentucky, manufacturing plant, before new contracts were negotiated.

The Company also has 36 major labor contracts outside North America (covering approximately 18,000 employees) and approximately 15 other contracts covering locations with small numbers of employees. In December 2000, there was a 20-day work stoppage at the chinaware manufacturing plant of the Indonesia Bath and Kitchen subsidiary, involving 950 employees. Other than the Indonesian work stoppage, the Company has not experienced any significant work stoppage in the last five years outside North America.

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

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 significant non-U.S. operations through subsidiaries in most of the major countries of western Europe, the Czech Republic, Bulgaria, Poland, Canada, Brazil, Mexico, Central American countries, China, Malaysia, the Philippines, Indonesia, Japan, 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 equity interest in the venture.

Because the Company has manufacturing operations in 28 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, however, because the Company primarily 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 and sold in various countries, resulting in increased exposure to foreign exchange effects. The Company is also subject to political risks related to its foreign operations.

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 our 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. There were no amendments to the Company s periodic reports in 2003, 2002 and 2001.

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. The Corporate Governance Principles 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 our Chief Financial Officer and our Controller) and directors, is posted on our 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 our 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.

ITEM 2. PROPERTIES

As of February 20, 2004, the Company conducted its manufacturing activities through 105 plants in 28 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
	Rushville, IN	Air handling products
	Trenton, NJ	Residential gas furnaces and air handlers
	Tyler, TX	Residential air conditioning
	Vidalia, GA	Residential air handlers
	Waco, TX	Water source heat pumps and air handlers
	Monterrey, Mexico	Reciprocating compressors
	Charmes, France	Applied air conditioning systems
	Epinal, France	Unitary air conditioning systems
	Taicang, China	Applied and unitary air conditioning systems
	Taipei, Taiwan	Unitary air conditioning systems
	Sao Paulo, Brazil	Unitary air conditioning systems
Bath and Kitchen	Salem, OH	Enameled-steel fixtures and acrylic bathtubs
	Tiffin, OH	Vitreous china
	Cambridge, Ontario, Canada	Enameled-steel fixtures
	Sevlievo, Bulgaria	Vitreous china and brass fittings
	Teplice, Czech Republic	Vitreous china
	Hull, England	Vitreous china and acrylic bathtubs
	Middlewich, England	Vitreous china
	Rugeley, England	Vitreous china and acrylic bathtubs
	Wolverhampton, England	Brass fittings
	Dole, France	Vitreous china
	Revin, France	Vitreous china and bathtubs
	Wittlich, Germany	Brass fittings
	Orcenico, Italy	Vitreous china
	Brescia, Italy	Vitreous china
	Trichiana, Italy	Vitreous china
	Aguascalientes, Mexico	Vitreous china
	Mexico City, Mexico	Vitreous china
	Monterrey, Mexico	Brass fittings
	Tlaxcala, Mexico	Vitreous china
	West Java, Indonesia	Vitreous china
	Beijing, China	Enameled-steel fixtures
	Guangdong Province, China	Vitreous china, fittings and bathtubs and enameled-steel fixtures
	Shanghai, China	Vitreous china and brass fittings
	Tianjin, China	Vitreous china
	Manila, Philippines	Vitreous china
	Seoul, South Korea	Brass fittings
	Bangkok, Thailand	Vitreous china
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
Wroclaw, Poland	Vehicle control systems

All the plants described above are owned by the Company or a subsidiary except for the properties located in Taipei, Taiwan; Manila, Philippines; Monterrey, Mexico (air conditioning plant); 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 2003, 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

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.

Over the years, the Company has been named as a defendant in numerous lawsuits alleging various asbestos-related personal injury claims arising primarily from sales of low-risk-profile products, such as boilers and railroad brake shoes. The Company believes it has ample insurance and has never had an unfavorable court judgment.

In these asbestos-related lawsuits, the Company is usually named as one of a large group of defendants, often in excess of one hundred companies. Many of these lawsuits involve multiple claimants, do not allege a connection between any Company product and the claimed injury or disease, and/or do not contain any allegations regarding the type of claimed injury or disease incurred. As a result, numerous lawsuits have been placed and may remain on inactive or deferred dockets, which some jurisdictions have established.

Through December 31, 2003, there have been 139,733 claims filed against the Company. At year-end 2003, there were 116,282 pending claims, compared with 96,541 and 52,211 at the end of 2002 and 2001, respectively. Since receipt of its first asbestos claim more than fifteen years ago through December 31, 2003, the Company has resolved 23,451 claims, and $36 million in settlement payments have been made, for an average payment per claim of $1,535. These settlement payments have been paid or reimbursed or are expected to be reimbursed by insurance.

The Company has recorded an obligation of $69 million, which represents the Company s estimated payments to claimants associated with the 116,282 pending asbestos claims. It also has recorded a related asset of $47 million, which represents the probable recoveries from insurance companies for such payments to claimants. The amount of the estimated obligations is based on the claims resolved, the assessment of claims pending, the status of ongoing litigation, defense and settlement strategies, and an assessment of other entities responsibilities for the claims. The amount of the probable recoveries is based on an analysis of insurance coverage, the insurers financial strength and insurance payments made to date.

Additional developments may occur that could affect the Company s estimate of asbestos liabilities and recoveries, such as the nature of future claims, the average payment to claimants and the amount of insurance recovery. No liability has been recorded for unknown asbestos claims. However, the Company has substantial insurance coverage for future claims. The Company believes that it is not reasonably possible that a net loss material to the liquidity and financial condition of the Company has been incurred.

For a discussion of environmental issues see Item 1. Business General Regulations and Environmental Matters. See also Note 13 of Notes to Financial Statements.

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 2003.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information as of February 10, 2004 with respect to each person who is an executive officer of the Company:

Name	Age	Position with Company
Frederic M. Poses	61	Chairman and Chief Executive Officer
Lawrence B. Costello	56	Senior Vice President, Human Resources
G. Peter D Aloia	59	Senior Vice President and Chief Financial Officer
W. Craig Kissel	52	Senior Vice President, and President, Trane Commercial Systems
J. Paul McGrath	63	Senior Vice President, General Counsel and Secretary
Marc R. Olivié	50	Senior Vice President, and President, Bath and Kitchen
Jacques Esculier	44	Vice President, and President, Vehicle Control Systems
R. Scott Massengill	41	Vice President and Treasurer
David R. Pannier	53	Vice President, and President, Residential Systems
Richard S. Paradise	42	Vice President and Controller

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 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 Director of that company from 1997 until 1999. Mr. Poses is a director of Raytheon Company and Centex Corporation.

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. 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. McGrath was elected Senior Vice President, General Counsel and Secretary, effective January 2000. From 1996 until that date, he served as Senior Vice President, General Counsel and Secretary of FMC Corporation.

Mr. Olivié was elected Senior Vice President of the Company in March 2001, to serve as President of its Global Bath and Kitchen sector, effective May 2001. Mr. Olivié is expected to leave the company on May 1, 2004. Prior to joining American Standard, Mr. Olivié had been President and Chief Executive Officer of Armstrong Floor

Products, the largest business of Armstrong Holdings Inc. He joined Armstrong Holdings Inc. as President of its Worldwide Building Products Operations in 1996 and prior to that, worked for Sara Lee Corporation where he was President of its European sportswear business.

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

Mr. Massengill was elected Vice President and Treasurer effective April 2001 and assumed additional responsibility for Business Services Operations in January 2004. He was Assistant Treasurer of Bristol-Myers Squibb Company from 1999 to March 2001 and before that 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 and Controller in July 2002. 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 Price Waterhouse (now known as PricewaterhouseCoopers) as an auditor.

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of the Company is listed on The New York Stock Exchange (the Exchange) under the symbol ASD. The common stock was first traded on the Exchange 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.

In January 1995 the Company adopted a Restated Certificate of Incorporation, Amended Bylaws and a Rights Agreement. The Restated Certificate of Incorporation authorizes the Company to issue up to 200,000,000 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. 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.

As of February 20, 2004 there were 762 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 33,000 beneficial owners of its common stock as of February 20, 2004.

No dividends have been declared on the Company s common stock since the initial public offering, and the Company does not currently intend to pay dividends. 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.

On February 5, 2004, the Board of Directors approved a three-for-one stock split, subject to shareholder approval of an amendment to the Company s charter to increase the authorized shares of common stock at the Annual Meeting on May 4, 2004.

Set forth below are the high and low sales prices for shares of the Company s common stock for each quarterly period in 2002 and 2003.

	High	Low
2002		
First quarter	$ 71.20	$58.20
Second quarter	$ 79.00	$69.40
Third quarter	$ 76.67	$61.24
Fourth quarter	$ 76.00	$58.89
2003		
First quarter	$ 72.18	$63.83
Second quarter	$ 79.55	$68.20
Third quarter	$ 85.12	$72.08
Fourth quarter	$102.00	$84.50

ITEM 6. SELECTED FINANCIAL DATA

(Dollars in millions, except per share data)	Year Ended December 31, 2003	2002	2001	2000	1999
Segment and Income Statement Data:					
Segment sales:					
Air Conditioning Systems and Services	**$ 4,974.6**	$ 4,743.9	$ 4,692.2	$ 4,726.1	$ 4,336.6
Bath and Kitchen	**2,234.8**	1,994.4	1,812.7	1,803.5	1,754.4
Vehicle Control Systems	**1,358.2**	1,057.1	960.4	1,068.8	1,098.3
Total sales	**$ 8,567.6**	$ 7,795.4	$ 7,465.3	$ 7,598.4	$ 7,189.3
Segment income:					
Air Conditioning Systems and Services	**$ 521.6**	$ 537.4	$ 515.2	$ 531.4	$ 452.5
Bath and Kitchen	**139.5**	154.7	147.5	161.5	164.2
Vehicle Control Systems	**176.6**	138.7	124.4	146.8	134.4
Total segment income (a)	**837.7**	830.8	787.1	839.7	751.1
Equity in net income of unconsolidated joint ventures	**25.9**	26.6	18.5	30.0	36.9
Gain on sale of water heater business (b)				57.3	
Restructuring and asset impairment charges (c)				(69.5)	(14.7)
Interest expense	**(117.0)**	(129.0)	(168.7)	(198.7)	(187.8)
Corporate and other expenses (a)	**(197.4)**	(172.2)	(160.6)	(149.4)	(134.0)
Income from continuing operations before income taxes	**549.2**	556.2	476.3	509.4	451.5
Income taxes (a)	**(144.0)**	(185.2)	(181.3)	(194.2)	(187.4)
Income from continuing operations	**$ 405.2**	$ 371.0	$ 295.0	$ 315.2	$ 264.1
Per share:					
Basic	**$ 5.60**	$ 5.13	$ 4.13	$ 4.49	$ 3.74
Diluted	**$ 5.50**	$ 5.04	$ 4.04	$ 4.36	$ 3.63
Average number of outstanding common shares:					
Basic	**72,269,886**	72,349,975	71,453,219	70,123,285	70,524,145
Diluted	**73,716,824**	73,641,566	73,117,996	72,197,672	72,666,406
Balance Sheet Data (at end of period):					
Total assets	**$ 5,878.7**	$ 5,143.8	$ 4,831.4	$ 4,744.7	$ 4,686.0
Total debt	**$ 1,679.1**	$ 1,959.2	$ 2,212.1	$ 2,471.7	$ 2,642.8

(a) In 2003 segment income includes expenses of $38.9 million ($27.3 million net of taxes, or $.37 per diluted share) related to the elimination of 870 jobs in the fourth quarter, comprised of $8.4 million for Air Conditioning Systems and Services, $20.8 million for Bath and Kitchen and $9.7 million for Vehicle Control Systems. Income taxes include a tax benefit of $11.6 million related to those expenses. Income taxes in 2003 also includes a $26.7 million benefit ($.36 per diluted share) principally because of the resolution of a German tax audit and approval of claims for research and development tax credits in the U.S. In the fourth quarter of 2001 the Company recorded expenses of

$53.1 million ($35.8 million net of taxes, or $.49 per diluted share) related to the elimination of approximately 1,700 salaried positions, comprised of $12.7 million for Air Conditioning Systems and Services, $14.7 million for Bath and Kitchen, $15.8 million for Vehicle Control Systems and $9.9 million for corporate headquarters.

(b) In 2000, the Company sold its Calorex water heater business for a gain of $57 million ($52 million net of taxes, or $.72 per diluted share).

(c) In 2000, the Company recorded a net restructuring and asset impairment charge of $70 million ($51 million, net of tax benefits, or $.71 per diluted share). These charges consisted of $26 million for Air Conditioning Systems and Services, $34 million for Bath and Kitchen and $15 million for Vehicle Control Systems, partly offset by a $5 million reduction of charges taken in prior years. In 1999, the Company recorded restructuring and asset impairment charges of $15 million ($9 million, net of tax benefits, or $.13 per diluted share). The 1999 charges consisted of restructuring charges of $30 million principally for Vehicle Control Systems and a $13 million impairment charge relating to a minority equity interest in a non-core business, partly offset by a reduction of charges taken in 1998 to restructure North American Bath and Kitchen operations.

For a comparative analysis of certain line items in the Segment and Income Statement Data section of this table, see Management s Discussion and Analysis of Financial Condition and Results of Operations which follows.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

American Standard has three business segments: Air Conditioning Systems and Services, Bath and Kitchen and Vehicle Control Systems. For the third year in a row the Company faced weak markets for commercial air conditioning equipment, and weak economic conditions in the U.S. and many other parts of the world. Despite the challenging economic conditions, the Company achieved record sales, net income, earnings per diluted share, and cash flow from operating activities. Earnings were $5.50 per diluted share, up 9% from $5.04 a year ago. Sales were $8.568 billion, up 10% from $7.795 billion a year ago. Net income rose to $405.2 million from $371.0 million, up 9%. The Company generated $651.2 million in net cash provided by operating activities and reduced debt by $280 million to $1.679 billion. Management believes the Company s sales growth outperformed its markets in 2003, with all segments contributing to the gain. Segment income for 2003 was $837.7 million, an increase of 1%, driven primarily by a 27% increase for Vehicle Control Systems and aided by favorable foreign exchange translation effects. Those gains were partly offset by declines in segment income for Air Conditioning and Bath and Kitchen. Excluding favorable foreign exchange translation effects, segment income for 2003 decreased 4%. That decrease resulted primarily because segment income included expenses of $38.9 million ($27.3 million net of $11.6 million tax benefit, or $.37 per diluted share) for the elimination of 870 jobs as a result of streamlining actions initiated in the fourth quarter. These actions are expected to result in cost savings of $30 million in 2004 and $36 million in 2005 and later years. The income tax provision for 2003 included a $26.7 million tax benefit ($.36 per diluted share) principally from the resolution of a German tax audit and approval of claims for research and development tax credits in the U.S. The combined effect of the $26.7 million tax benefits that occurred in the fourth quarter, together with other ongoing tax planning activities, reduced the effective income tax rate to 26.2% for the year, well below the rate of 33.3% for 2002. Without the $26.7 million of tax benefits discussed above and excluding job elimination expenses and the related tax benefit, the tax rate for 2003 would have been 31%.

The following discussion and analysis addresses changes in segment sales and segment income and, in certain cases, segment operating margins, for 2003 compared with 2002, both with and without the effects of foreign exchange translation and job elimination expenses described above. It also addresses income taxes with and without the tax benefits described above. Presenting results of operations excluding certain recorded amounts is not in conformity with generally accepted accounting principles (GAAP), but management analyzes the data in this manner because it is useful to them in understanding past financial performance and prospects for the future. Management also uses data adjusted in this manner for purposes of determining incentive compensation. Accordingly, management believes that presenting the analysis in this manner is also useful to shareholders in understanding the core business segment operating results and trends. Approximately half of the Company s business is outside the U.S., therefore changes in exchange rates can have a significant effect on results of operations when presented in U.S. dollars. Management consistently analyzes sales, segment income and segment operating margins with and without the effects of foreign exchange translation and believes these comparisons are useful to shareholders. Year-over-year changes in sales and segment income are calculated in terms of constant U.S. dollars. Similarly, management believes it is useful to shareholders to analyze year-over-year changes in operating results with and without the effects of the job elimination expenses to obtain a complete understanding of segment operating results. In addition, management believes it is useful to shareholders to analyze income taxes with and without the effects of settlement of the tax issues described above that caused the effective income tax rate for 2003 to drop to 26.2%, which is not necessarily reflective of past or future tax rates. These additional measurements are not meant to be a substitute for measurements prepared in conformity with GAAP, nor to be considered in isolation.

Similarly, management has analyzed the results of operations for 2002 compared with 2001 with and without the effects of foreign exchange translation, and with and without fourth quarter 2001 job elimination expenses and goodwill amortization included in 2001, but not in 2002. Goodwill amortization was eliminated as an accounting requirement beginning in 2002 by a new goodwill accounting standard. Management believes that presenting the analysis in this manner is useful to shareholders in assessing the overall performance of the business on a comparative basis from year to year.

For a five-year summary of segment sales and income and other income statement information, refer to Item 6, Selected Financial Data on page 19, and for additional data on segments refer to Note 14 of Notes to Financial Statements. The following discussion and analysis addresses year-to-year changes in certain line items shown in the Segment and Income Statement Data in the Selected Financial Data on page 19. Sales are presented based upon country of destination.

Results of Operations for 2003 Compared with 2002 and 2002 Compared with 2001

Consolidated sales for 2003 were $8.568 billion, an increase of $773 million, or 10% (5% excluding favorable foreign exchange translation effects), from $7.795 billion in 2002. Sales increased 5% for Air Conditioning Systems and Services, 12% for Bath and Kitchen and 28% for Vehicle Control Systems.

Segment income for 2003 was $837.7 million, an increase of $7 million, or 1% (a decrease of 4% excluding favorable foreign exchange translation effects), from $830.8 million in 2002. Segment income increased 27% for Vehicle Control Systems, but decreased 3% for Air Conditioning Systems and Services and 10% for Bath and Kitchen. Segment income for 2003 included $38.9 million of expense for the elimination of 870 jobs, comprised of $8.4 million for Air Conditioning Systems and Services, $20.8 million for Bath and Kitchen and $9.7 million for Vehicle Control Systems.

Consolidated sales for 2002 were $7.795 billion, an increase of $330 million, or 4% (3% excluding favorable foreign exchange translation effects), from $7.465 billion in 2001. Sales increased 1% for Air Conditioning Systems and Services, 10% for Bath and Kitchen and 10% for Vehicle Control Systems.

Segment income for 2002 was $830.8 million, an increase of $43.7 million, or 6% (5% excluding favorable foreign exchange translation effects), from $787.1 million in 2001. Segment income increased 4% for Air Conditioning Systems and Services, 5% for Bath and Kitchen and 12% for Vehicle Control Systems. Segment income for 2001 included a $43.2 million expense for the elimination of 1,640 salaried positions, comprised of $12.7 million for Air Conditioning Systems and Services, $14.7 million for Bath and Kitchen and $15.8 million for Vehicle Control Systems. The improvement in 2002 also included the effect of adopting a new goodwill accounting standard as of January 1, 2002, which eliminated the amortization of goodwill, thereby increasing segment income in 2002 by approximately $32.2 million ($29.7 million net of tax benefits, or $.40 per diluted share) compared with 2001. The $32.2 million of goodwill amortization in segment income in 2001 included $8.3 million for Air Conditioning Systems and Services, $13.5 million for Bath and Kitchen and $10.4 million for Vehicle Control Systems. See Note 2 of Notes to Financial Statements, Accounting Policies-Goodwill for a comparative summary of the effects of the goodwill accounting change on net income and net income per share for 2003, 2002 and 2001.

Following are tables showing the percentage of total sales and segment income for each of the Company s business segments and the geographic distribution of sales and segment income.

Segment Percentages of Sales

	2003	2002	2001
Air Conditioning Systems and Services	58%	61%	63%
Bath and Kitchen	26%	26%	24%
Vehicle Control Systems	16%	13%	13%
	100%	100%	100%

Geographic Distribution of Sales

	2003	2002	2001
United States	53%	57%	57%
Europe	31%	28%	27%
Other	16%	15%	16%
	100%	100%	100%

Segment Percentages of Segment Income

	2003	2002	2001
Air Conditioning Systems and Services	62%	65%	65%

Bath and Kitchen	17%	18%	19%
Vehicle Control Systems	21%	17%	16%
	100%	100%	100%

Geographic Distribution of Segment Income

	2003	2002	2001
United States	53%	67%	65%
Europe	30%	23%	22%
Other	17%	10%	13%
	100%	100%	100%

Results of Operations by Business Segment

Air Conditioning Systems and Services Segment

	Year Ended December 31,		
(Dollars in millions)	2003	2002	2001
Sales	**$4,974.6**	$4,743.9	$4,692.2
Segment income	**$ 521.6**	$ 537.4	$ 515.2

In 2003, sales of Air Conditioning Systems and Services increased 5% (3% excluding favorable foreign exchange translation effects).

Following is an analysis of changes in sales from 2002 to 2003 showing the effect of foreign exchange translation and an analysis of changes in segment income and operating margin showing the effect of job elimination expenses in the fourth quarter of 2003 and foreign exchange translation.

	Year Ended December 31, 2003					
			Excluding job elimination expenses		Excluding job eliminations and foreign exchange	
(Dollars in millions)	2002 Reported	2003 Reported	Adjusted Amount	Percentage change compared with 2002	Adjusted Amount	Percentage change compared with 2002
Segment sales	$4,743.9	$4,974.6			$4,899.7	3%
Segment income	$ 537.4	$ 521.6	$530.0	-1%	$ 526.2	-2%
Segment operating margin	11.3%	10.5%	10.7%	-0.6 pts.	10.7%	-0.6 pts.

The sales gain in 2003 was led by a 10% increase in residential air conditioning sales in the U.S., and an 8% increase in commercial parts, service and solutions sales. Those increases were partly offset by lower sales in the North American and European applied equipment markets. In our commercial air conditioning business, sales performance was in line with the equipment markets on a global basis. Commercial equipment sales, which account for approximately 45% of the air conditioning segment sales, continued to feel the effects of a difficult economic environment and were flat year over year (down 2% excluding favorable foreign exchange translation effects). Commercial

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applied equipment sales decreased 3% and commercial unitary equipment sales decreased 1% on an exchange-adjusted basis, with the unitary business achieving sales gains in the second half of the year. The commercial equipment market in the U.S. was down an estimated 5% in 2003 (based upon preliminary ARI (Air-Conditioning & Refrigeration Institute) data for commercial unitary markets and our own estimates for applied markets), following drops of 11% in 2002 and 8% in 2001. This represents a cumulative decline of 22% since 2000. Customers continued to defer replacement of equipment, which accounts for about 57% of our equipment sales, and we estimate that non-residential construction activity in the U.S. declined approximately 4% year over year. Overall, we believe our share remained stable in these commercial markets which were weak and price competitive. Sales of parts, services and solutions continued to grow, with double-digit growth rates outside the U.S. and 4% growth domestically. Sales of parts and solutions were strongest, as customers have less discretion to defer those types of purchases, with lower growth in routine services, where customers have more flexibility to defer spending. Sales outside the U.S., which are substantially commercial, grew 13% (7% excluding favorable foreign exchange translation effects), led by strong growth in Asia.

We continue to outperform the domestic residential unitary market, which we estimate was up 2% for 2003 compared with last year, based upon data published by ARI. In addition, the furnace market was up an estimated 2%. Residential sales benefited from strong demand for replacement units and a shift in demand towards high-efficiency units. Consumers continue to look for reliability and efficiency options. Our high-efficiency product lines capitalize on this demand. Our strong position in the premium, high-efficiency market was evidenced by a substantial sales increase of new higher-efficiency models. Sales of our high-efficiency furnaces were up approximately 20% for 2003 compared with the prior year. We also continued to see growth in our marketing arrangement with Home Depot through which certain residential central heating and air conditioning systems are offered. The Company s market share for residential products increased slightly more than one-half percentage point year over year, aided by the successful introduction of new products. Residential products distributors experienced good sell-through of our products to dealers in the year, resulting in their inventory levels remaining low versus historical levels. In addition, combined factory and distributor inventory levels ended the year approximately even with the average levels since 1992, even though the market has grown substantially.

Distribution of Air Conditioning sales by market and geography

	2003	2002	2001
Market distribution			
Commercial	73%	74%	80%
Residential	27%	26%	20%
	100%	100%	100%
Replacement, Renovation and Repair	57%	60%	64%
Commercial New Construction	34%	32%	30%
Residential New Construction	9%	8%	6%
	100%	100%	100%
Geographic distribution			
U.S.	75%	77%	76%
Asia	10%	9%	9%
Europe	7%	7%	6%
Other	8%	7%	9%
	100%	100%	100%

Segment income of Air Conditioning Systems and Services in 2003 decreased 3% (4% excluding favorable foreign exchange translation effects) to $521.6 million from $537.4 million in 2002. Segment income for 2003 included $8.4 million of expense for the elimination of 234 jobs primarily in the U.S. Excluding those job elimination expenses, segment income in 2003 would have decreased 1% (2% excluding favorable foreign exchange translation effects). That decrease was attributable primarily to lower volume and price, and unfavorable mix in applied and unitary products in the commercial equipment business. Those declines were partly offset by improved results in the residential business, from higher volumes and a favorable shift in customer demand to higher-capacity, higher-efficiency products with higher margins, and growth in commercial parts, service and solutions. Operating results also improved in all international operations, where segment income almost doubled. The positive impact of

Materials Management and Six Sigma productivity initiatives offset cost escalations and investments in new product initiatives. Overall margins decreased from 11.3% in 2002 to 10.5% in 2003.

Following is an analysis of changes in sales from 2001 to 2002 showing the effect of foreign exchange translation and an analysis of changes in segment income and operating margin showing the effect of job elimination expenses in the fourth quarter of 2001, a change in accounting for goodwill amortization and foreign exchange translation.

	Year Ended December 31, 2001	
	Excluding job elimination expenses and goodwill amortization	**Excluding job eliminations, goodwill amort. and foreign exchange**
	Percentage change 2002	**Percentage**