AMERICAN STANDARD COMPANIES INC
Form 10-K
February 25, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2004

o 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 þ No o

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. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes þ No o

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, 2004 was approximately $8.6 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 18, 2005: Common Stock, $.01 par value, 214,501,304 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, 2005	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 wo meaning in connection with a 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 3. Legal Proceedings and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations-Information Concerning Forward-Looking Statements.

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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. An overview of each of the segments follows below.

Air Conditioning Systems and Services Segment (Air Conditioning)

Air Conditioning Systems and Services is a global manufacturer of commercial and residential heating, ventilation and air conditioning (HVAC) equipment, systems and controls. It also provides aftermarket parts to the HVAC industry, performance contracting for the installation and maintenance of HVAC systems featuring its products, and service for its products and those of other manufacturers. Air Conditioning markets and sells its products and services globally under the TRANEâ name and, for U.S. residential and light commercial applications, under both the TRANEâ and AMERICAN STANDARDâ names.

Air Conditioning, with revenues of $5.345 billion in 2004, accounted for 56% of Company sales and 56% of its segment income. Approximately 60% of Air Conditioning s revenue in 2004 was derived from sales of equipment, parts and services to the replacement, renovation and repair market segment, and the remainder was derived from new construction. Revenue from the commercial and residential markets accounted for approximately 75% and 25%, respectively, of Air Conditioning s total revenue in 2004. In 2004, Air Conditioning derived 27% of its revenue from sales outside the U.S. For sales by geographic region and end markets, see Management s Discussion and Analysis of Financial Condition and Results of Operations .

The products manufactured by Air Conditioning include chillers and air handlers, light and large commercial unitary equipment, heat pumps, residential condensing units and furnaces, and fan coils. Air Conditioning also produces a wide range of HVAC controls: from electromechanical controls on its equipment, to thermostats that regulate room and building temperature, to integrated building automation systems that automatically control a building s performance, including its energy consumption, air quality and comfort.

Air Conditioning has a broad global network of company-owned and independent agents and distributors distributing its products primarily through two separate distribution channels: a commercial channel and a dealer channel. The commercial channel is served by 188 company-owned and independent commercial sales offices (CSOs), about half in the U.S. and Canada and the remainder throughout Europe, mid-East, Latin America and Asia Pacific regions. CSOs sell equipment, systems and controls primarily to mechanical contractors and building owners agents, such as architects and consulting engineers. A growing area is sales direct to building owners, primarily through national account relationships with owners or operators that manage a distributed network of facilities such as retail and hospitality chains, federal, state and local governments and agencies, and process manufacturers (e.g., pharmaceuticals and electronics). In addition to selling original equipment, the Trane CSOs also manage a network of over 120 parts centers serving the needs of company-owned and independent HVAC service companies. In North America and Europe, the CSOs also have an extensive network of service technicians and applications engineers that provide design, installation, consulting and maintenance services and controls contracting. Outside the U.S. and

Canada, in addition to servicing the commercial channel, CSOs sell residential products to independent dealer/installers.

In the U.S. and Canada, the dealer channel is served by Company-owned sales offices and independent wholesale distributors with over 500 stocking locations who sell 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 also well positioned in the retail sales channel through an arrangement with Home Depot, the leading home improvement retailer, through which certain central heating and air conditioning systems are marketed to residential customers.

Air Conditioning competes in all of its markets on the basis of the breadth, quality and reliability of its products and services, technological leadership, energy efficiency, price and value. Air Conditioning s major competitors for residential products in the U.S. are Carrier, York, Rheem, Lennox and Goodman Industries. Major competitors of Air Conditioning s commercial equipment in the U.S. and Canada are Carrier, York and McQuay. Major competitors of Air Conditioning s control products in the U.S. and Canada are Johnson Controls, Siemens and Honeywell International Inc.

As of December 31, 2004, Air Conditioning Systems and Services employed approximately 26,500 people and had 29 manufacturing plants in 10 countries.

Bath and Kitchen Segment

Bath and Kitchen is a leading producer of bathroom and kitchen fixtures and fittings in Europe, the U.S., Central America and Asia. Its products, including sinks, toilets, faucets, tubs, showers, bathroom furniture and accessories, are marketed through retail and wholesale sales channels for residential and commercial markets.

In 2004, Bath and Kitchen, with revenues of $2.440 billion, accounted for 26% of the Company s sales and 20% of its segment income. Bath and Kitchen derived 66% of its total 2004 sales from operations outside the U.S. For sales by geographic region and end markets, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

Bath and Kitchen sales in 2004 were derived 51% from chinaware fixtures, 29% from fittings (typically brass), 9% from tubs, with the remainder from related bath and kitchen products. Throughout the world these products are generally sold through wholesalers 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 79% of Bath and Kitchen sales, with sales to the commercial and industrial markets providing the remainder.

Bath and Kitchen operates through three primary groups that are regionally focused: Europe, Americas and Asia

Bath and Kitchen sells products in Europe primarily under the brand names IDEAL STANDARD, JADO, ARMITAGE SHANKS, DOLOMITE and PORCHER. The Company is currently increasing its focus on expanding the presence and scope of offerings of the Ideal Standard brand. It manufactures and distributes bathroom and kitchen fixtures and fittings through subsidiaries or joint ventures in Belgium, Bulgaria, the Czech Republic, Egypt, France, Germany, Greece, Italy, the Netherlands, the U.K., Spain, 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, its majority-owned joint venture in Central

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America and its unconsolidated joint venture in the Dominican Republic.

In Asia, Bath and Kitchen manufactures bathroom and kitchen fixtures and fittings, selling under the brand 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 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 60% of the Company s European and Americas sales and about 17% 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 2004 and the two prior years while the commercial new construction market grew slightly in 2004 but declined in 2003 and 2002. The residential new construction and commercial new construction markets in Europe have been rather static overall, with the exception of Germany, which declined in each of those years. 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 new construction and remodeling markets.

In an effort to capture a larger share of the replacement and remodeling market, Bath and Kitchen has introduced a variety of new product designs, new products with best-in-class performance characteristics and suites and collections designed to suit a variety of customer tastes. New offerings include additional colors and ensembles, bathroom suites designed by internationally known designers and electronically controlled products. The new Champion toilet, with America s Best Flushing System, established strong presence and achieved good distribution in the wholesale and retail channels at product margins that are better than the category average. In Europe, Bath and Kitchen is increasing its focus on health and wellness through its bathing and showering businesses via new products, increased functionality and the addition of new consumer benefits. Faucet technology programs are focused on anti-leak, anti-scald, filtering and other features to meet emerging consumer and legislative requirements. The total bathroom concept, which, provides customers and consumers with fully coordinated and integrated suites of products, including sinks, toilets, faucets, tubs, showers, bathroom furniture and accessories, has been used successfully and broadly in Europe and Asia, is being expanded in the U.S. retail channel. Bath and Kitchen is also continuing programs to expand its presence in 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 the Company s products with interior designers, decorators, consumers and plumbers.

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 sales (approximately 19% in 2004), but represent only approximately 5% of total Company sales.

Many of the Company s bathtubs sold in the U.S. are made from a proprietary porcelain-on-metal composite, AMERICASTâ. 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, 2004, Bath and Kitchen employed approximately 27,700 people and, including affiliated companies, had 63 manufacturing plants in 25 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 (Delta) 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, price and value.

Vehicle Control Systems Segment

Vehicle Control Systems, operating under the WABCOâ name (WABCO), designs, manufactures and sells braking and control systems primarily for the worldwide commercial vehicle industry. WABCO s largest-selling products are pneumatic braking control systems and related electronic braking controls (ABS and EBS) and conventional components for heavy and medium-sized trucks, trailers and buses. In 2004 WABCO, with sales of $1.724 billion, accounted for 18% of the Company s sales and 24% of its segment income. 78% of its 2004 revenue was derived from sales in Europe. The Company believes that WABCO is the worldwide technology leader for braking, stability, suspension and transmission controls for commercial vehicles. WABCO has a strong reputation for technological innovation and is a leading systems development partner with several major vehicle manufacturers. 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 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 aftermarket 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), Ford, GMC, Hino, Iveco (Fiat), MAN, Nissan, Paccar (Paccar and DAF), Scania, Volvo (Volvo and RVI) and Volkswagen. WABCO s principal competitor is Knorr/Bremse. WABCO competes primarily on the basis of customer service, quality and reliability of products, global technological leadership, vehicle life-cycle expertise and price and value. For sales by geographic region and end markets, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

The Western European market for new truck and bus production increased 17% in 2004 following an increase of 3% in 2003 and a decrease of 8% in 2002. The Brazilian market increased 23% in 2004 following an increase of 10% in 2003 and a decrease of 10% in 2002. During the years 2000 through 2004, 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). In 2004, the North American truck market grew 34% following a 1% increase in 2003. 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.

WABCO has developed an advanced electronic braking system, 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. 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. Other new products under development include further advancements in electronic braking, stability and safety controls, and 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 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), 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 (WABCO SA).

As of December 31, 2004, WABCO and affiliated companies employed approximately 6,700 people and had 11 manufacturing facilities and 17 sales organizations operating in 24 countries.

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 15 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 15 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.

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, and
  - Quality and Six Sigma programs.
- 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.

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Management continues to adopt challenging goals for continuous performance improvement. In 2004, improvements from Materials Management programs were able to offset increasing commodity costs related to the purchase of steel, copper, aluminum and energy, which negatively impacted the Company by $98 million. Incremental benefits from this program were approximately $37 million in 2004, $100 million in 2003 and $105 million in 2002. The Company expects to incur approximately $200 million in additional costs from the commodities mentioned above, in 2005. The Company expects to generate savings from its Materials Management initiative that will significantly offset these additional costs.

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 $170 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 2004, the Company had 44 Master Black Belts, 673 Black Belts and 4,302 Green Belts who were certified or in training. To achieve such a designation, specific projects, timelines, milestones and savings must be achieved. 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.

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 energy. 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 initiative. 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 2005. Also see Company Goals Materials Management.

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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 â
	AMERICAN STANDARD â
Bath and Kitchen	AMERICAN STANDARD â
	IDEAL STANDARD â
	STANDARD â
	PORCHER â
	JADOÒ
	ARMITAGE SHANKS â
	DOLOMITE â
	AMERICAST â
	MELOH â
	VENLO â
	BORMA â
	VENESTA â
	SOTTINI â
	SANGRA â
Vehicle Control Systems	WABCO â

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 $206 million in 2004, $192 million in 2003 and $185 million in 2002 for research and product development and for product engineering in its three business segments. The expenditures for research and product development alone were $140 million in 2004, $128 million in 2003 and $129 million in 2002 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 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 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 approximately 28 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 2004, 2003 and 2002 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, 19 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 2004, 2003 and 2002 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 chemicals with ozone-depletion potential is being phased out over various periods 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. The Company believes that it has adequate financial resources to fund these efforts.

Employees

The Company employed approximately 61,500 people as of December 31, 2004 (excluding employees of unconsolidated joint venture companies). The Company has 16 major labor union contracts in the Americas (covering approximately 11,500 employees); three of which (covering approximately 2,200 employees) expired in 2004 and were renegotiated. Five of these contracts expire in 2005 (covering approximately 2,200 employees), and three expire in 2006 (covering approximately 2,600 employees). In addition, five contracts in Mexico (covering 4,500 employees) are negotiated on an annual basis. There can be no assurance that the Company will negotiate the labor contracts expiring during 2005 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 22,000 employees). The Company does not anticipate any problems in renegotiating these contracts that would materially affect operational results.

In March 2002, 450 Air Conditioning Systems and Services employees went on strike for approximately three weeks at the Ft. Smith, AR manufacturing facility. Since that time there have been no significant work stoppages. 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 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, 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 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.

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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. There were no amendments to the Company s periodic reports in 2004, 2003 and 2002.

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 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 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 7, 2004

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.

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ITEM 2. PROPERTIES

As of February 23, 2005, the Company conducted its manufacturing activities through 103 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
	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
	Waco, TX	Water source heat pumps and air handlers
	Columbia, SC	Coils
	Monterrey, Mexico	Reciprocating compressors
	Charmes, France	Applied air conditioning systems
	Golbey, 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
	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 and acrylic bathtubs
	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
	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 enameled-steel fixtures
	Shanghai, China	Vitreous china and brass fittings

	Tianjin, China	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
	Gronau, Germany	Compressors and hydraulics
	Wroclaw, Poland	Vehicle control 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 2004, 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.

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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. Currently, there is no date set for a new trial on such claims.

As previously reported, 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 fixtures and fittings in certain European countries. 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. 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.

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 the French and European Union competition regulations.

The Company is cooperating fully with these investigations and intends to vigorously defend itself against these lawsuits. The Company believes that the resolution of the matters described above would not, individually or in the aggregate, have a material adverse effect on the financial condition or liquidity of the Company but could be material to the Company s operating results for the periods in which the liabilities, if any, would be recognized.

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 boilers and railroad brake shoes. 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 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.

Historically, the Company recorded a liability only for filed asbestos claims. Costs associated with claims that might be filed against the Company 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. Because of stabilization in the rate at which new claims are being filed and the Company s added experience in resolving claims, the Company now believes a reasonable estimate of this liability can be made.

In the fourth quarter of 2004, the Company retained Dr. Francine F. Rabinovitz of Hamilton, Rabinovitz & Alschuler, Inc. (HR&A) to assist it in calculating an estimate of the Company s total liability for pending and unasserted potential future asbestos-related claims. Dr. Rabinovitz is a respected expert in performing complex calculations such as this. She has been involved in a number of asbestos-related valuations of current and future liabilities, and her valuation methodologies have been accepted by numerous courts.

The methodology used by HR&A to project the Company s total liability for pending and unasserted potential future asbestos-related claims relied upon and included the following factors:

HR&A s interpretation of a widely accepted forecast of the population likely to have been exposed to asbestos

epidemiological studies estimating the number of people likely to develop asbestos-related diseases

HR&A s analysis of the number of people likely to file an asbestos-related personal injury claim against the Company based on such epidemiological data and the Company s most recent five-year claims history

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an analysis of the Company s pending cases, by type of injury claimed

an analysis of the Company s most recent five-year history to determine the average settlement value of claims, by type of injury claimed

an adjustment for inflation in the future average settlement value of claims, at a 3% annual inflation rate

an analysis of the period over which the Company has and is likely to resolve asbestos-related claims against it in the future

Based on these factors, HR&A calculated a total estimated liability for the Company to resolve all pending and unasserted potential future claims through 2055, which is HR&A s reasonable best estimate of the time it will take to resolve asbestos-related claims, of $699 million. This amount is on a pre-tax basis, not discounted for the time-value of money, and excludes legal fees. Based on HR&A s analysis, in the fourth quarter of 2004 the Company increased its recorded liability for asbestos claims by $616 million, from $83 million to $699 million.

As of December 31, 2004, the Company recorded an increase in the receivable for probable asbestos-related insurance recoveries of $309 million. This represents amounts due to the Company for previously settled and paid claims and the probable reimbursements relating to its estimated liability for pending and future claims. In calculating this amount, the Company used the estimated asbestos liability for pending and projected future claims calculated by HR&A. It also considered the amount of insurance available, gaps in coverage, applicable deductibles, allocation methodologies, solvency ratings and credit-worthiness of the insurers, the published dividend rates of insolvent insurers, amounts already recovered from and the potential for settlements with insurers, and estimated annual legal fees.

In the 4th quarter of 2004, the Company recorded a non-cash charge to income of $307 million ($188 million after tax), which, is the difference between the amount by which the Company increased its total estimated liability for pending and projected future asbestos-related claims and the amount the Company expects to recover from insurers with respect to that increased liability. This difference is due primarily to gaps in coverage, deductibles associated with the policies and settlements for less than the full coverage limits with carriers in insolvency proceedings and carriers with questionable credit-worthiness (Gaps, Deductibles and Discounts). In addition, because some insurance policy buy-out arrangements result in insurers paying the Company before liability payments are due to claimants, such settlements typically take into account the time-value of money and include some discount to reflect the early payment. This discount also contributes to the gap between the recorded liability and the recorded insurance receivable.

The Company is in litigation against certain carriers whose policies it believes provide coverage for pending claims. The insurance carriers named in this suit are challenging the Company s right to recovery. While the Company cannot predict the outcome of this litigation with certainty, the Company believes that the amount recorded is probable of recovery based on its analysis of the coverage, the applicable law, historical trends in its and other insured parties settlements with insurers and the likelihood of achieving a settlement with some or all of the insurers.

The aggregate amount of the stated limits in insurance policies available to the Company for asbestos-related claims, acquired over many years and from many different carriers, is substantial, significantly exceeding the projected liability against the Company. However, limitations in that coverage, primarily due to Gaps, Deductibles and Discounts, are expected to result in the projected total liability to claimants and related expenses exceeding the probable insurance recovery. The Company settled with most of the insolvent carriers and carriers with poor credit quality whose policies it believes provide coverage for pending and projected future claims. 85% of the remaining recorded insurance recovery receivable will be from carriers rated A or better by AM Best.

The amounts recorded by the Company for asbestos-related liability and insurance-related receivables are based on currently known facts. The Company s actual expenses or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in the Company s or HR&A s calculations vary significantly

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from actual results. Key variables in these assumptions are identified above and include the number and type of new claims to be filed each year, the average cost of disposing of each such new claim, average annual defense costs, the resolution of coverage issues among insurance carriers including allocation methodologies, and the solvency risk with respect to the Company s insurance carriers. Furthermore, predictions with respect to these variables are subject to greater uncertainty as the projection period lengthens. Other factors that may affect the Company s liability and ability to recover under its insurance policies include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms that may be made by state and federal courts, and the passage of state or federal tort reform legislation.

In 2003, the Company began a program of seeking recovery from excess carriers on the lower layers of its coverage. By early February 2005, the Company had reached significant settlements on two elements of this coverage, KWELM Management Services Ltd (KWELM) and Underwriters at Lloyd s London through Equitas (Equitas).

In July 2004, the Company agreed to a settlement with KWELM, as agent for various London-based carriers in bankruptcy, for a small portion of the Company s insurance coverage, of which $29.5 million was received in the third quarter of 2004. In connection with the future liquidation of the bankruptcy trust the Company may receive additional payments.

In February 2005, the Company reached agreement with Equitas, the London-based entity responsible for certain pre-1993 Lloyd s of London policies in its insurance coverage, in the amount of $84.5 million. During the first quarter of 2005, $10 million of this will be paid directly to the Company to cover past asbestos and environmental costs, and $74.5 million will be placed in a trust until January 3, 2007. If during the trust period there is federal legislation that takes asbestos claims out of the courts and requires Equitas to make a duplicate payment to the asbestos trust, this money will be used by Equitas for the legislative payment less some allowance to the Company for claims settlements that may be made in the period January 1, 2005 through January 3, 2008. If there is no such legislation by January 3, 2007, the funds in the trust, including accrued interest, will be disbursed to the Company.

From receipt of its first asbestos claim more than twenty years ago to December 31, 2004, the Company has resolved 25,389 claims, and settlements of approximately $51 million have been made, for an average payment per claim of $2,003. The table below provides additional information regarding asbestos-related claims filed against the Company, reflecting updated information for all periods.

	2002	2003	2004	Total pre-12/31/04
Open claims January 1	52,985	97,200	116,549	N/A
New Claims filed	45,404	26,295	12,059	150,706
Claims settled	431	430	812	8,090
Claims dismissed	758	6,516	2,479	17,299
Open claims December 31	97,200	116,549	125,317	N/A

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. This is demonstrated by the fact that approximately 40% of all claims filed against the Company were filed in a 20-plus year period prior to 2002, 40% were filed in the 16-month period from January 2002 through April 2003, and the remaining 20% were spread relatively evenly over the next 20 months through December 2004. The Company believes that the dramatic increase in filings in the 16-month period from January 2002 through April 2003 was influenced by the bankruptcy filings of numerous asbestos defendants in asbestos-related litigation and the prospect of various forms of state and federal judicial and legislative reforms.

For a discussion of environmental issues see Item 1. Business General Regulations and Environmental Matters. See also Note 14 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 2004.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information as of February 23, 2005 with respect to each person who is an executive officer of the Company:

Name	Age	Position with Company
Frederic M. Poses	62	Chairman and Chief Executive Officer
Lawrence B. Costello	57	Senior Vice President, Human Resources
G. Peter D Aloia	60	Senior Vice President and Chief Financial Officer
James E. Dwyer	46	Senior Vice President, and President, Bath and Kitchen
Mary Elizabeth Gustafsson	45	Senior Vice President, General Counsel and Secretary
W. Craig Kissel	53	Senior Vice President, and President, Trane Commercial Systems
Jacques Esculier	45	Vice President, and President, Vehicle Control Systems
R. Scott Massengill	42	Vice President and Treasurer
David R. Pannier	54	Vice President, and President, Residential Systems
Richard S. Paradise	43	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 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 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. 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.

Ms. Gustafsson was elected Senior Vice President, General Counsel and Secretary of the Company effective January 2005. Fro