AMERICAN STANDARD COMPANIES INC
Form 10-Q
May 14, 2002

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 **For the quarterly period ended March 31, 2002**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number 1-11415

AMERICAN STANDARD COMPANIES INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-3465896 (I.R.S. Employer Identification No.)

One Centennial Avenue, P.O. Box 6820, Piscataway, NJ
(Address of principal executive offices) 08855-6820
(Zip Code) Registrant s telephone number, including area code (732) 980-6000

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 No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common stock, $.01 par value, outstanding at

April 30, 2002	72,577,214 shares

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

American Standard Companies Inc. (the Company) is a Delaware corporation that owns all the outstanding common stock of American Standard Inc. and American Standard International Inc. (ASII), both Delaware corporations. American Standard or the Company will refer to the Company, or to the Company and American Standard Inc. and ASII including their subsidiaries, as the context requires.

AMERICAN STANDARD COMPANIES INC. AND SUBSIDIARIES
UNAUDITED SUMMARY STATEMENT OF INCOME
(Dollars in millions except
per share amounts)

	Three months ended March 31, 2002	Three months ended March 31, 2001
Sales	$1,761.9	$1,790.8
Costs and expenses:		
Cost of sales	1,352.7	1,356.8
Selling and administrative expenses	282.3	282.1
Other expense (income)	8.0	.8
Interest expense	33.4	46.9
	1,676.4	1,686.6
Income before income taxes	85.5	104.2
Income taxes	28.5	39.1

Net income	$57.0	$65.1
Net income per share:		
Basic	$ .79	$ .92
Diluted	$ .78	$ .90
Average common shares outstanding		
Basic	72,232,638	70,600,212
Diluted	73,476,055	72,640,292

See accompanying notes

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AMERICAN STANDARD COMPANIES INC. AND SUBSIDIARIES
UNAUDITED SUMMARY BALANCE SHEET
(Dollars in millions, except share data)

	March 31, 2002	December 31, 2001
Current assets:		
Cash and cash equivalents	$76.4	$82.1
Accounts receivable	1,125.3	998.3
Inventories:		
Finished products	434.6	406.1
Products in process	141.5	135.4
Raw materials	129.4	115.6
	705.5	657.1
Other current assets	162.6	158.9
Total current assets	2,069.8	1,896.4
Facilities, less accumulated depreciation: March 2002 - $673.9; Dec. 2001 - $657.8	1,343.8	1,362.8
Goodwill	912.7	929.0
Other assets	689.4	643.2

Total assets	$5,015.7	$4,831.4
Current liabilities:		
Loans payable to banks	$59.9	$58.7
Current maturities of long-term debt	4.9	11.4
Accounts payable	644.4	604.1
Accrued payrolls	243.4	265.2
Other accrued liabilities	787.1	748.9
Total current liabilities	1,739.7	1,688.3
Long-term debt	2,221.9	2,142.0
Reserve for post-retirement benefits	497.6	489.5
Other liabilities	616.8	601.7
Total liabilities	5,076.0	4,921.5
Stockholders deficit:		
Preferred stock, 2,000,000 shares authorized, none issued and outstanding		
Common stock $.01 par value, 200,000,000 shares authorized; shares issued and outstanding:		
72,372,252 in 2002; 72,071,944 in 2001	.7	.7
Capital surplus		

	705.3	707.2
Unearned compensation	(4.5)	(5.2)
Treasury stock	(521.3)	(505.3)
Retained earnings	114.0	57.0
Accumulated other comprehensive income:		
Foreign currency translation effects	(347.0)	(331.8)
Deferred gain (loss) on hedge contracts, net of tax	4.2	(1.0)
Minimum pension liability adjustment, net of tax	(11.7)	(11.7)
Total stockholders deficit	(60.3)	(90.1)
	$5,015.7	$4,831.4

See accompanying notes

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AMERICAN STANDARD COMPANIES INC. AND SUBSIDIARIES
UNAUDITED SUMMARY STATEMENT OF CASH FLOWS
(Dollars in millions)

	Three months ended March 31,	
	2002	**2001**
Cash provided (used) by:		
Operating Activities:		
Net income	$57.0	$65.1
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	48.7	56.7
Non-cash stock compensation	14.3	17.1
German tax settlement paid	(55.0)	
Job elimination expenses paid	(7.6)	
Changes in assets and liabilities:		
Accounts receivable	(71.3)	(19.3)
Inventories	(53.0)	(89.5)
Accounts payable	39.3	34.2
Other accrued liabilities and taxes	22.9	3.1
Other assets	(28.9)	(13.7)
Other long-term liabilities	29.0	3.8
Net cash provided (used) by operating activities	(4.6)	57.5

Investing activities:		
Purchase of property, plant and equipment	(22.2)	(28.6)
Investments in affiliated companies and other businesses	(22.0)	(16.5)
Investment in computer software	(10.1)	(13.6)
Proceeds from sale and leaseback		21.6
Other	4.8	2.7
Net cash used by investing activities	(49.5)	(34.4)
Financing activities:		
Repayments of long-term debt	(38.6)	(1.4)
Net change in revolving credit facilities	119.1	(53.9)
Net change in other short-term debt	1.6	4.0
Purchases of treasury stock	(68.4)	(26.8)
Proceeds from exercise of stock options	34.0	46.7
Other	1.5	1.4
Net cash provided (used) by financing activities	49.2	(30.0)

Effect of exchange rate changes on cash and cash equivalents	(.8)	(.8)
Net decrease in cash and cash equivalents	(5.7)	(7.7)
Cash and cash equivalents at beginning of period	82.1	85.4
Cash and cash equivalents at end of period	$76.4	$77.7

See accompanying notes

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AMERICAN STANDARD COMPANIES INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Basis of Financial Statement Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of financial data have been included. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the entire year. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2001.

Note 2. Restructuring and Asset Impairment Charges

2000 Restructuring Program

As described in Note 5 of Notes to Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2001, in 2000, the Company announced a worldwide restructuring program that included improving efficiency through the transfer of production to locations with lower product costs, the closure of manufacturing and administrative facilities, outsourcing production of certain products, capitalizing on synergistic opportunities in several businesses and termination costs related to upgrading the effectiveness of the organization. In connection with this program, in the fourth quarter of 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). This charge was comprised of $26 million for Air Conditioning Systems and Services, $34 million for Plumbing Products and $15 million for Vehicle Control Systems, offset by a $5 million reversal of restructuring charges recorded previously for a 1998-1999 restructuring program as the Company was able to complete the activities at lower cost than originally estimated. The Air Conditioning Systems and Services charge included costs related to a workforce reduction of 700 people to integrate international operations, costs of lease obligations on properties no longer to be used, and asset impairment charges. The Plumbing Products charge included an asset impairment write-down related to the closure of one plant in the U.S. and a related workforce reduction of 250 people related to the transfer of production to other facilities in the U.S. and Mexico. The Plumbing Products charge also included termination costs for a workforce reduction of 350 people related to the centralization and realignment of certain functions in Western Europe, the Americas and Asia to eliminate redundancies. The Vehicle Control Systems charge primarily reflects the transfer of production to the lower-labor cost facility in Poland and consolidation of certain operations and administrative functions in Western Europe to eliminate redundancies, resulting in a net workforce reduction of 450 people.

In 2001 the majority of the actions described above were completed for substantially the same amounts as originally accrued. With respect to the other actions, the Company was able to settle certain items on more favorable terms than expected and others on less favorable terms. Additionally, the scope of certain activities was expanded and of others reduced. For Air Conditioning Systems and Services, the Company was able to terminate certain employees on more favorable terms than originally contemplated and terminate lease obligations more favorably than expected, resulting in a $5 million reversal of the accrual. However, the Company incurred additional costs of $4 million, principally related to discontinuing certain product lines in Europe.

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This additional cost was charged to restructuring expense in 2001. For Vehicle Control Systems, the Company did not undertake all of the planned consolidation activities with respect to administrative functions in Western Europe and therefore reversed $4 million of the 2000 accrual. However, the planned transfer of production to Poland was expanded and accelerated, resulting in additional costs of $11 million, primarily for severance, which was charged to restructuring expense in 2001. Plumbing Products terminated fewer people than planned, resulting in a $3 million reversal of the 2000 accrual. However, in 2001 Plumbing Products incurred additional restructuring costs, principally severance of $2 million in North America.

Following is a summary of the 2000 restructuring program and asset impairment charges through March 31, 2002 (dollars in millions):

	Initial Charge 2000	Non-Cash Write-off in 2000	Balance Dec. 31, 2000	Charges Accrued in 2001	Charges Reversed in 2001	Paid in 2001	Balance Dec. 31, 2001	Paid in 2002	Balance Mar. 31, 2002
Termination payments and other employee costs	$47.4	$	$47.4	$11.7	$(9.4)	$(44.8)	$4.9	$(1.2)	$3.7
Asset impairments	24.1	(24.1)							
Other	3.7		3.7	6.1	(2.9)	(5.5)	1.4	(.4)	1.0
	$75.2	$(24.1)	$51.1	$17.8	$(12.3)	$(50.3)	$6.3	$(1.6)	$4.7

The Company expects that essentially all of the $4.7 million balance as of March 31, 2002 related to the 2000 restructuring program will be utilized in 2002. The remaining accrued termination payments and other employee costs are for severance and other related payments due to terminated employees.

Note 3. Comprehensive Income

Total comprehensive income consisted of the following:

	Three months ended March 31,	
	2002	2001
Net income	$57.0	$65.1
Foreign currency translation effects	(15.2)	(2.3)
Deferred gain (loss) on hedge contracts, net of tax	5.2	(4.7)
Total comprehensive income	$47.0	$58.1

Note 4. Tax Matters

The Company had been in discussions and negotiations with The State Finance Administration for North Rhine-Westphalia, Germany (the German Tax Authority) concerning certain tax issues covering the years 1984 1994. For the years 1984 1990, the Company received a tax assessment from the German Tax Authority in the amount of $90 million. For years 1991 1994, the Company anticipated a further assessment for an amount substantially greater than that assessed for 1984 1990. On January 15, 2002, the Company settled all issues for 1984 through 1994 for a current cash payment of approximately $55 million plus $30 million previously deposited in escrow. Since the Company previously had provided adequate reserves for all issues, the settlement had no impact on results of operations.

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Note 5. Earnings Per Share

The average number of outstanding shares of common stock used in computing diluted earnings per share for the three months ended March 31, 2002 and 2001 included 1,243,417 and 2,040,080 average incremental shares, respectively, for the assumed exercise of stock options.

Note 6. Adoption of New Accounting Standard for Goodwill and Other Intangible Assets

In 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. The Company began applying the new rules in the first quarter of 2002. Application of the non-amortization provisions of FAS 142 resulted in an increase in net income in the first quarter of 2002 of $7.6 million, or $.10 per diluted share, and is expected to result in an increase in net income of approximately $30 million, or $.40 per share annually. During the first half of 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite-lived intangible assets and has not yet determined what effect, if any, the results of these tests will have on the results of operations or financial position of the Company. However, based upon a preliminary evaluation, the Company believes that no impairment will result.

Following is a summary of net income for the three months ended March 31, 2002 compared with net income for the three months ended March 31, 2001 as reported and as adjusted to exclude goodwill amortization (dollars in millions):

	Three months ended March 31,	
	2002	2001
Reported net income	$57.0	$65.1

Add goodwill amortization, net of income taxes of $.4 in 2001 (a)
7.6

Adjusted net income
$57.0 $72.7

Basic earnings per share:

Reported net income
$ .79 $ .92
Goodwill amortization
.11

Adjusted net income	$ .79	$1.03
Diluted earnings per share:		
Reported net income	$ .78	$ .90
Goodwill amortization		.10
Adjusted net income	$ .78	$1.00

(a) In certain foreign countries goodwill amortization is deductible for tax purposes.

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Note 7. Debt

On January 8, 2002, the company redeemed all of the 9 1/4% Sinking Fund Debentures, at a redemption price 102.313% of the face amount of the bonds plus unpaid interest up to the redemption date. The total redemption cost of $38.7 million, including accrued interest of $.4 million, was paid with lower-cost borrowings under the Company s credit agreements.

Note 8. Supplemental Consolidating Condensed Financial Information

All of the Company s Senior Notes and the 9 1/4% Sinking Fund Debentures were issued by its wholly owned subsidiary, American Standard Inc. (ASI). American Standard Companies Inc. (the Parent Company) fully and unconditionally guarantees the payment obligations under these securities (the ASI Public Debt). In lieu of providing separate financial statements for ASI, included is the accompanying consolidating condensed financial information. Management believes that separate financial statements of ASI are not material to investors. The following supplemental financial information sets forth, on an unconsolidated basis, statements of income and statements of cash flows for the three months ended March 31, 2002 and 2001, and balance sheets as of March 31, 2002 and December 31, 2001 for the Parent Company, ASI, and the subsidiaries of the Parent Company which are not subsidiaries of ASI (the Other Subsidiaries). None of the Other Subsidiaries guarantees the ASI Public Debt. The equity method of accounting is used to reflect investments of the Parent Company in ASI and Other Subsidiaries.

CONSOLIDATING CONDENSED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2002
(Unaudited)

(Dollars in millions)	Parent Company	ASI	Other Subsidiaries	Eliminations	Consolidated Total
Sales		$1,014.1	$ 819.2	$(71.4)	$1,761.9
Costs and expenses:					
Cost of sales		788.6	635.5	(71.4)	1,352.7
Selling and administrative expenses		158.4	123.9		282.3
Other (income) expense		(2.6)	10.6		8.0
Interest expense		31.0	2.4		33.4
Intercompany interest expense (income)		.2	(.2)		
Total expenses		975.6	772.2	(71.4)	1,676.4

Income before income taxes and equity in net income of consolidated subsidiaries
38.5 47.0 85.5
Income taxes
13.1 15.4 28.5

Income before equity in net income of consolidated subsidiaries
25.4 31.6 57.0
Equity in net income of consolidated subsidiaries
$57.0 (57.0)

Net income
$57.0 $25.4 $31.6 $(57.0) $57.0

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CONSOLIDATING CONDENSED BALANCE SHEETS
AS OF MARCH 31, 2002

(Dollars in millions)	Parent Company	ASI	Other Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ .3	$(16.9)	$93.0		$76.4
Accounts receivable, net	.1	476.6	648.6		1,125.3
Inventories		345.4	360.1		705.5
Other current assets		111.7	50.9		162.6
Total current assets	.4	916.8	1,152.6		2,069.8
Facilities, net		541.0	802.8		1,343.8
Goodwill, net		131.4	781.3		912.7
Investment in subsidiaries	523.5			$(523.5)	
Other assets		509.3	180.1		689.4
Total assets	$523.9	$2,098.5	$2,916.8	$(523.5)	$5,015.7

LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY

Current liabilities:

Loans payable to banks
$.1 $59.8 $59.9
Current maturities of long-term debt
3.4 1.5 4.9
Other current liabilities
1,019.3 655.6 1,674.9

Total current liabilities
1,022.8 716.9 1,739.7
Long-term debt
2,156.1 65.8 2,221.9
Reserve for postretirement benefits
294.5 203.1 497.6
Intercompany accounts, net
$584.2 (41.7) (542.5)
Other long-term liabilities
329.7 287.1 616.8

Total liabilities
584.2 3,761.4 730.4 $ 5,076.0
Total stockholders (deficit) equity
(60.3) (1,662.9) 2,186.4 (523.5) (60.3)

Total liabilities and stockholders equity	$523.9	$2,098.5	$2,916.8	$(523.5)	$5,015.7

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CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOW
FOR THE THREE MONTHS ENDED MARCH 31, 2002
(Unaudited)

(Dollars in millions)	Parent Company	ASI	Other Subsidiaries	Eliminations	Consolidated Total
Cash provided (used) by:					
Operating activities:					
Net income	$57.0	$25.4	$31.6	$(57.0)	$57.0
Adjustments to reconcile net income to net cash provided (used) by operations:					
Depreciation and amortization		20.6	28.1		48.7
German tax settlement paid			(55.0)		(55.0)
Other non-cash items		9.2	(2.5)		6.7
Equity in net income of subsidiaries	(57.0)			57.0	
Changes in assets and liabilities:					
Accounts receivable	.2	(2.4)	(69.1)		(71.3)
Inventories		(35.0)	(18.0)		(53.0)
Accounts payable		33.3	6.0		39.3
Other accrued liabilities and taxes		68.1	(45.2)		22.9
Other assets		(78.0)	49.1		(28.9)
Other long-term liabilities		26.3	2.7		29.0
Net cash provided (used) by operating activities	.2	67.5	(72.3)		(4.6)

Investing activities:

Purchase of property, plant and equipment
(10.6) (11.6) (22.2)
Investments in affiliated companies and other businesses
(22.0) (22.0)
Investments in computer software
(4.2) (5.9) (10.1)
Other
2.5 2.3 4.8

Net cash used by investing activities
(34.3) (15.2) (49.5)

Financing activities:

Repayments of long-term debt
(37.8) (.8) (38.6)
Net change in revolving credit facilities
57.5 61.6 119.1
Net change in other short-term debt
1.6 1.6
Purchases of treasury stock
(68.4) (68.4)
Net change in intercompany accounts
33.0 (72.9) 39.9
Proceeds from exercise of stock options

34.0 34.0
Other
1.5 1.5

Net cash provided (used) by financing activities
.1 (53.2) 102.3 49.2

Effect of exchange rate changes on cash and cash equivalents
(.8) (.8)

Net increase (decrease) in cash and cash equivalents
.3 (20.0) 14.0 (5.7)

Cash and cash equivalents a beginning of period	3.1	79.0	82.1