NBT BANCORP INC
Form SC 13G
January 29, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No:)

NBT BANCORP SHS

(Name of Issuer)

Common Stock

(Title of Class of Securities)

628778102

(CUSIP Number)

December 31, 2009

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No.   628778102

(1)Names of reporting persons. BlackRock, Inc.

This Amendment to Schedule 13G (this "Amendment") is filed by BlackRock, Inc. ("BlackRock"). It amends the most recent Schedule 13G filing, if any, made by BlackRock and the most recent Schedule 13G filing, if any, made by Barclays Global Investors, NA and certain of its affiliates (Barclays Global Investors, NA and such affiliates are collectively referred to as the

"BGI Entities") with respect to the subject class
of securities of the above-named issuer. As previously
announced, on December 1, 2009 BlackRock
completed its acquisition of Barclays Global Investors
from Barclays Bank PLC. As a result, [substantially all of]
the BGI Entities are now included as subsidiaries of
BlackRock for purposes of Schedule 13G filings.

(2) Check the appropriate box if a member of a group
(a)
(b)

(3) SEC use only

(4) Citizenship or place of organization

Delaware

Number of shares beneficially owned by each reporting person with:

(5)Sole voting power

2737492

(6)Shared voting power

None

(7)Sole dispositive power

2737492

(8)Shared dispositive power

None

(9)Aggregate amount beneficially owned by each reporting person

2737492

(10)Check if the aggregate amount in Row (9) excludes certain shares

(11)Percent of class represented by amount in Row 9

7.97%

(12)Type of reporting person

HC

Item 1.

Item 1(a) Name of issuer:

NBT BANCORP SHS

Item 1(b) Address of issuer's principal executive offices:
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52 S. BROAD STREET

NORWICH NY 13815

Item 2.

2(a) Name of person filing:

BlackRock, Inc.

This Amendment to Schedule 13G (this "Amendment")
is filed by BlackRock, Inc. ("BlackRock"). It amends
the most recent Schedule 13G filing, if any, made by
BlackRock and the most recent Schedule 13G filing,
if any, made by Barclays Global Investors, NA and
certain of its affiliates (Barclays Global Investors, NA
and such affiliates are collectively referred to as the
"BGI Entities") with respect to the subject class
of securities of the above-named issuer. As previously
announced, on December 1, 2009 BlackRock
completed its acquisition of Barclays Global Investors
from Barclays Bank PLC. As a result, [substantially all of]
the BGI Entities are now included as subsidiaries of
BlackRock for purposes of Schedule 13G filings.

2(b) Address or principal business office or, if none, residence:

BlackRock Inc.
40 East 52nd Street
New York, NY 10022

2(c) Citizenship:

See Item 4 of Cover Page

2(d) Title of class of securities:

Common Stock

2(e) CUSIP No.:
See Cover Page

Item 3.

If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b) or (c),
check whether the person filing is a:
[ ] Broker or dealer registered under Section 15 of the Act;
[ ] Bank as defined in Section 3(a)(6) of the Act;
[ ] Insurance company as defined in Section 3(a)(19) of the Act;
[ ] Investment company registered under Section 8 of the
Investment Company Act of 1940;
[ ] An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);

[ ] An employee benefit plan or endowment fund in accordance with
Rule 13d-1(b)(1)(ii)(F);
[X] A parent holding company or control person in accordance with
Rule 13d-1(b)(1)(ii)(G);
[ ] A savings associations as defined in Section 3(b) of the Federal
Deposit Insurance Act (12 U.S.C. 1813);
[ ] A church plan that is excluded from the definition of an
investment company under section 3(c)(14) of the Investment Company
Act of 1940;
[ ] A non-U.S. institution in accordance with
Rule 240.13d-1(b)(1)(ii)(J);
[ ] Group, in accordance with Rule 240.13d-1(b)(1)(ii)(K). If filing
as a non-U.S. institution in accordance with
Rule 240.13d-1(b)(1)(ii)(J), please specify the type of
institution:

Item 4. Ownership

Provide the following information regarding the aggregate number
and percentage of the class of securities of the issuer identified in Item 1.

Amount beneficially owned:

2737492

Percent of class

7.97%

Number of shares as to which such person has:

Sole power to vote or to direct the vote

2737492

Shared power to vote or to direct the vote

None

Sole power to dispose or to direct the disposition of

2737492

Shared power to dispose or to direct the disposition of

None

Item 5.

Ownership of 5 Percent or Less of a Class. If this statement is being
filed to report the fact that as of the date hereof the reporting person
has ceased to be the beneficial owner of more than 5 percent of the

class of securities, check the following [ ].

Instruction. Dissolution of a group requires a response to this item.

Item 6. Ownership of More than 5 Percent on Behalf of Another Person

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than 5 percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the common stock of
NBT BANCORP SHS.
No one person's interest in the common stock of
NBT BANCORP SHS
is more than five percent of the total outstanding common shares.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

See Exhibit A

Item 8. Identification and Classification of Members of the Group

If a group has filed this schedule pursuant to Rule 13d-1(b)(ii)(J), so indicate under Item 3(j) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to Rule 13d-1(c) or Rule 13d-1(d), attach an exhibit stating the identity of each member of the group.

Item 9. Notice of Dissolution of Group

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity.

See Item 5.

Item 10. Certifications
By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Signature.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: January 20, 2010
BlackRock, Inc.

Signature: Rick F. Froio

Name/Title Attorney-In-Fact

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (see 18 U.S.C. 1001).

Exhibit A

Subsidiary

BlackRock Asset Management Japan Limited
BlackRock Advisors (UK) Limited
BlackRock Institutional Trust Company, N.A.
BlackRock Fund Advisors
BlackRock Asset Management Australia Limited
BlackRock Investment Management, LLC
BlackRock International Ltd

*Entity beneficially owns 5% or greater of the outstanding shares of the security class being reported on this Schedule 13G.
Exhibit B

POWER OF ATTORNEY

The undersigned, BLACKROCK, INC., a corporation duly organized under the laws of the State of Delaware, United States (the

"Company"), does hereby make, constitute and appoint each of Robert Connolly, Howard Surloff, Edward Baer, Bartholomew Battista, Daniel Waltcher, Karen Clark, John Stelley Denis Molleur, Daniel Ronnen, Brian Kindelan, Nicholas Hall, Con Tzatzakis , John Belvin, Rick F. Froio and Matthew Fitzgerald acting severally, as its true and lawful attorneys-in-fact, for the purpose of, from time to time, executing in its name and on its behalf, whether the Company is acting individually or as representative of others, any and all documents, certificates, instruments, statements, other filings and amendments to the foregoing (collectively, "documents") determined by such person to be necessary or appropriate to comply with ownership or control-person reporting requirements imposed by any United States or non-United States governmental or regulatory authority, including without limitation Forms 3, 4, 5, 13D, 13F and 13G and any amendments to any of the foregoing as may be required to be filed with the Securities and Exchange Commission, and delivering, furnishing or filing any such documents with the appropriate governmental, regulatory authority or other person, and giving and granting to each such attorney-in-fact power and authority to act in the premises as fully and to all intents and purposes as the Company might or could do if personally present by one of its authorized signatories, hereby ratifying and confirming all that said attorney-in-fact shall lawfully do or cause to be done by virtue hereof. Any such determination by an attorney-in-fact named herein shall be conclusively evidenced by such person's execution, delivery, furnishing or filing of the applicable document.

This power of attorney shall expressly revoke the power of attorney dated January 11, 2008 in respect of the subject matter hereof, shall be valid from the date hereof and shall remain in full force and effect until either revoked in writing by the Company, or, in respect of any attorney-in-fact named herein, until such person ceases to be an employee of the Company or one of its affiliates.

IN WITNESS WHEREOF, the undersigned has caused this power of attorney to be executed as of this 14th day of December, 2009.

BLACKROCK, INC.

By:_ /s/ Robert W. Doll, Jr.
Name: Robert W. Doll, Jr.
Title: Vice Chairman

n="center">S 200 D $ 34.107 3,121,239 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 945 D $ 34.11 3,120,294 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 100 D $ 34.1139 3,120,194 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 100 D $ 34.1161 3,120,094 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 200 D $ 34.1168 3,119,894 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 800 D $ 34.12 3,119,094 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 700 D $ 34.13 3,118,394 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 3,400 D $ 34.14 3,114,994 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 200 D $ 34.1449 3,114,794 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 100 D $ 34.1478 3,114,694 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 3,500 D $ 34.15 3,111,194 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 200 D $ 34.155 3,110,994 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 655 D $ 34.1554 3,110,339 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 200 D $ 34.16 3,110,139 I See Footnotes [1] [2] [3] Common Stock11/18/2004 S 300 D $ 34.1601 3,109,839 I See Footnotes [1] [2] [3] Common

Stock11/18/2004 S 100 D $ 34.1617 3,109,739 I See Footnotes (1) (2) (3) Common Stock11/18/2004 S 100 D $ 34.17 3,109,639 I See Footnotes (1) (2) (3) Common Stock11/18/2004 S 100 D $ 34.1757 3,109,539 I See Footnotes (1) (2) (3) Common Stock11/18/2004 S 300 D $ 34.18 3,109,239 I See Footnotes (1) (2) (3) Common Stock11/18/2004 S 100 D $ 34.1806 3,109,139 I See Footnotes (1) (2) (3) Common Stock11/18/2004 S 300 D $ 34.1951 3,108,839 I See Footnotes (1) (2) (3) Common Stock11/18/2004 S 3,539 D $ 34.2 3,105,300 I See Footnotes (1) (2) (3) Common Stock11/18/2004 S 200 D $ 34.2029 3,105,100 I See Footnotes (1) (2) (3) Common Stock11/18/2004 S 3,300 D $ 34.21 3,101,800 (4) I See Footnotes (1) (2) (3)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SOROS GEORGE C/O SOROS FUND MANAGEMENT LLC 888 SEVENTH AVENUE, 33RD FLOOR NEW YORK, NY 10106		X		

Signatures

John F. Brown as Attorney-in-Fact for George Soros	11/22/2004
**Signature of Reporting Person	Date

Explanation of Responses:

*	If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
**	Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
(1)	Each of the transactions in the Issuer's common shares, $0.01 par value per share ("Common Stock"), reported herein was effected in the form of a single trade or a group of trades at the same sale price, portions of which were allocated between the accounts of QIP and SFM Domestic Investments (each as defined below).
(2)	Of each trade, approximately 79.11% of the amount of Common Stock reported herein was allocated to the account of Quantum Industrial Partners LDC ("QIP"), an exempted limited duration company formed under the laws of the Cayman Islands. QIH Management Investor, L.P. ("QIHMI"), an advisory firm organized as a Delaware limited partnership, is a minority shareholder of, and is vested with investment discretion with respect to, portfolio assets held for the account of QIP. The sole general partner of QIHMI is QIH Management LLC ("QIH Management"), a limited liability company formed under the laws of the State of Delaware. Soros Fund Management LLC ("SFM LLC"), a limited liability company formed under the laws of the State of Delaware, is the sole managing member of QIH Management. The Reporting Person is the Chairman of SFM LLC and, in such capacity, may be deemed to have voting and dispositive power over the Common Stock held for the account of QIP.
(3)	Of each trade, approximately 20.89% of the amount of Common Stock reported herein was allocated to the account of SFM Domestic Investments LLC, a limited liability company formed under the laws of the State of Delaware ("SFM Domestic Investments"). The Reporting Person is the sole managing member of SFM Domestic Investment and, in such capacity, may be deemed to have voting and dispositive power over the Common Stock held for the account of SFM Domestic Investments.
(4)	Of the 3,101,800 shares of Common Stock reported herein, (i) 2,453,815 shares of Common Stock are held for the account of QIP and (ii) 647,985 shares of Common Stock are held for the account of SFM Domestic Investments.

Remarks:

The filing of this statement shall not be deemed an admission that the Reporting Person is the beneficial owner of any securitie

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. New Roman" SIZE="2">

Equity in earnings of affiliates, net of dividends received

(3.7) (10.0) (13.7)

Non-cash stock compensation

75.0 75.0

Gain/loss on sale of property and equipment

(3.9) (3.9)

Equity in net income of subsidiary

(426.7) 426.7

Changes in assets and liabilities:

Accounts receivable

(146.0) (201.3) (17.5) (364.8)

Inventories

(115.6) (93.5) (209.1)

Accounts payable

51.4 87.5 138.9

Other accrued liabilities

78.6 150.8 (5.1) 224.3

Post-retirement benefits

(32.6) 3.4 (29.2)

Asbestos receivable/liability, net

(5.3) (5.3)

Other long-term liabilities

15.7 (36.7) 8.5 (12.5)

Other current and long-term assets

(12.3) (5.9) 8.4 (9.8)

Net cash (used)/provided by operating activities

182.1 244.1 (2.6) 423.6

Investing activities:

Purchase of property, plant and equipment

(67.6) (70.7) (138.3)

Investments in affiliated companies

Investments in computer software

(18.7) (9.2) (27.9)

Loan to unconsolidated joint venture, net

3.9 3.9

Proceeds from the disposal of property/equipment

16.0 16.0

Net cash used by investing activities

(82.4) (63.9) (146.3)

Financing activities:

Proceeds from issuance of long-term debt

14.1 0.8 14.9

Repayments of long-term debt

(310.5) (1.1) (311.6)

Net change in revolving credit facility

378.8 (93.6) 285.2

Net change in other short-term debt

78.5 12.7 91.2

Purchases of treasury stock

(450.0) (450.0)

Dividend payments

(108.9) (108.9)

Net change in intercompany accounts

510.5 (402.5) (110.8) 2.8

Proceeds from exercise of stock options

33.2 33.2

Proceeds from foreign exchange forward contracts

1.4 1.4

Other common stock issued or reacquired, net

16.0 16.0

Net cash (used)/provided by financing activities

0.8 (240.2) (192.0) 2.8 (428.6)

Effect of exchange rate changes on cash and cash equivalents

8.0 8.0

Net increase (decrease) in cash and cash equivalents

0.8	(140.5)	(3.8)	0.2		(143.3)

Cash and cash equivalents at beginning of year

0.1	141.7	246.3	2.6		390.7

Cash and cash equivalents at end of year

$0.9	$1.2	$242.5	$2.8	$	$247.4

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Note 12. Supplemental Consolidating Condensed Financial Information (continued)

CONSOLIDATING CONDENSED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005

(unaudited)

(Dollars in millions)	Parent Company	ASI	ASII	Other Subsidiaries	Eliminations	Consolidated Total
Sales	$	$ 1,395.7	$ 1,318.6	$ 3.5	$ (93.8)	$ 2,624.0
Costs and expenses and other expense:						
Cost of sales		988.1	997.1	4.5	(93.2)	1,896.5
Selling and administrative expenses		264.1	208.0	0.1	(1.1)	471.1
Other (income) expense		8.3	(1.2)	(1.4)	0.5	6.2
Interest expense		27.6	1.3			28.9
Intercompany interest expense (income)		4.1	(4.1)			
Total expenses		1,292.2	1,201.1	3.2	(93.8)	2,402.7
Income before income taxes and equity in net income of consolidated subsidiaries		103.5	117.5	0.3		221.3
Income taxes		17.6	44.6			62.2
Income/(loss) before equity in net income of consolidated subsidiaries		85.9	72.9	0.3		159.1
Equity in net income of consolidated subsidiaries	159.1				(159.1)	
Net income/(loss)	$ 159.1	$ 85.9	$ 72.9	$ 0.3	$ (159.1)	$ 159.1

CONSOLIDATING CONDENSED STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005

(Unaudited)

(Dollars in millions)	Parent Company	ASI	ASII	Other Subsidiaries	Eliminations	Consolidated Total
Sales	$	$ 3,968.3	$ 4,067.4	$ 9.9	$ (326.3)	$ 7,719.3
Costs and expenses and other expense:						
Cost of sales		2,837.8	3,091.6	11.5	(325.3)	5,615.6
Selling and administrative expenses		780.2	637.6	0.4	(3.1)	1,415.1
Other (income) expense		48.7	(46.4)	(4.3)	2.1	0.1
Interest expense		83.5	5.6			89.1
Intercompany interest expense (income)		10.7	(10.7)			
Total expenses		3,760.9	3,677.7	7.6	(326.3)	7,119.9

Income before income taxes and equity in net income of consolidated subsidiaries		207.4	389.7	2.3		599.4
Income taxes		42.5	64.3	0.7		107.5
Income before equity in net income of consolidated subsidiaries		164.9	325.4	1.6		491.9
Equity in net income of consolidated subsidiaries	491.9				(491.9)	
Net income	$ 491.9	$ 164.9	$ 325.4	$ 1.6	$ (491.9)	$ 491.9

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Note 12. Supplemental Consolidating Condensed Financial Information (continued)

CONSOLIDATING CONDENSED BALANCE SHEETS

AS OF DECEMBER 31, 2005

(Dollars in millions)	Parent Company	ASI	ASII	Other Subsidiaries	Eliminations	Consolidated Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ 0.1	$ 141.7	$ 246.3	$ 2.6	$	$ 390.7
Accounts receivable, net		537.3	601.0	23.0		1,161.3
Inventories		512.8	565.4			1,078.2
Other current assets		258.6	161.3	16.1		436.0
Total current assets	0.1	1,450.4	1,574.0	41.7		3,066.2
Facilities, net		629.7	986.5			1,616.2
Goodwill, net		178.0	980.9			1,158.9
Investment in subsidiaries	2,454.2				(2,454.2)	
Long-term asbestos receivable		384.0				384.0
Other assets		449.1	181.2	12.2		642.5
Total assets	$ 2,454.3	$ 3,091.2	$ 3,722.6	$ 53.9	$ (2,454.2)	$ 6,867.8
LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIT)						
Current liabilities:						
Loans payable to banks	$	$	$ 17.5	$	$	$ 17.5
Current maturities of long-term debt		2.0	0.6			2.6
Other current liabilities		876.7	1,314.6	17.5		2,208.8
Total current liabilities		878.7	1,332.7	17.5		2,228.9
Long-term debt		1,282.8	393.3			1,676.1
Reserve for post-retirement benefits		254.9	376.7			631.6
Intercompany accounts, net	1,531.8	362.4	(1,760.7)	(133.5)		
Long-term portion of asbestos liability		673.0				673.0
Other long-term liabilities		296.5	273.2	166.0		735.7
Total liabilities	1,531.8	3,748.3	615.2	50.0		5,945.3
Total shareholders equity (deficit)	922.5	(657.1)	3,107.4	3.9	(2,454.2)	922.5
Total liabilities and shareholders equity (deficit)	$ 2,454.3	$ 3,091.2	$ 3,722.6	$ 53.9	$ (2,454.2)	$ 6,867.8

Note 12. Supplemental Consolidating Condensed Financial Information (continued)

CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOW

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005

(unaudited)

(Dollars in millions)	Parent Company	ASI	ASII	Other Subsidiaries	Eliminations	Consolidated Total
Cash provided (used) by:						
Operating activities:						
Net income	$ 491.9	$ 164.9	$ 325.4	$ 1.6	$ (491.9)	$ 491.9
Adjustments to reconcile net income to net cash provided by operations:						
Depreciation and amortization		74.4	123.0			197.4
Equity in earnings of affiliates, net of dividends received		(9.0)	(8.2)			(17.2)
Non-cash stock compensation		49.0				49.0
Other		(3.7)	(0.9)			(4.6)
Equity in net income of subsidiaries	(491.9)				491.9	
Changes in assets and liabilities:						
Accounts receivable		(98.7)	(88.6)			(187.3)
Inventories		(57.3)	(40.3)			(97.6)
Accounts payable		44.2	(28.3)	0.2		16.1
Other accrued liabilities and taxes		(56.1)	161.0	(14.5)		90.4
Post-retirement benefits		(32.6)	8.0			(24.6)
Asbestos receivable/liability, net		3.5				3.5
Other current and long-term assets		50.3	(57.4)	13.1		6.0
Other long-term liabilities		36.2	(38.7)	16.0		13.5
Net cash provided by operating activities		165.1	355.0	16.4		536.5
Investing activities:						
Purchase of property, plant and equipment		(94.1)	(94.2)			(188.3)
Investment in affiliated companies		(4.8)	(15.2)			(20.0)
Investments in computer software		(17.4)	(15.7)			(33.1)
Loan to unconsolidated joint venture, net		8.9				8.9
Proceeds from the disposal of property/equipment		18.1	8.4			26.5
Net cash used by investing activities		(89.3)	(116.7)			(206.0)
Financing activities:						
Proceeds from issuance of long-term debt		201.2	1.3			202.5
Repayments of long-term debt		(209.2)	(0.8)			(210.0)
Net change in revolving credit facility		195.0	4.5			199.5
Net change in other short-term debt		(11.5)	(6.3)			(17.8)
Purchases of treasury stock	(338.4)					(338.4)
Dividend payments	(95.3)					(95.3)
Net change in intercompany accounts	396.9	(246.8)	(134.0)	(16.1)		
Proceeds from exercise of stock options	30.3					30.3
Proceeds from settlement of foreign exchange forward contracts		(2.8)				(2.8)
Other common stock issued or reacquired, net	6.6					6.6
Net cash used by financing activities	0.1	(74.1)	(135.3)	(16.1)		(225.4)

Effect of exchange rate changes on cash and cash equivalents			(4.4)			(4.4)
Net increase in cash and cash equivalents	0.1	1.7	98.6	0.3		100.7
Cash and cash equivalents at beginning of year	0.1	(8.6)	235.1	2.8		229.4
Cash and cash equivalents at end of year	$ 0.2	$ (6.9)	$ 333.7	$ 3.1	$	$ 330.1

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Note 13. Divestiture

On May 31, 2006, the Company sold the ceramic cartridge manufacturing operation of its European faucet business. The Company received approximately $13.1 million of net cash proceeds from the sale transaction and recognized a pretax gain of approximately $6.3 million, which is included in other income in the accompanying consolidated statements of income.

Note 14. Segment Data

Summary Segment and Income Statement Data

Dollars in millions

(unaudited)

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Sales:				
Air Conditioning Systems and Services	$ 1,840.0	$ 1,599.0	$ 5,161.9	$ 4,484.0
Bath and Kitchen	620.2	590.0	1,849.9	1,843.0
Vehicle Control Systems	504.6	435.0	1,495.7	1,392.3
Total Sales	$ 2,964.8	$ 2,624.0	$ 8,507.5	$ 7,719.3
Segment Income:				
Air Conditioning Systems and Services	$ 247.6	$ 214.8	$ 656.5	$ 521.3
Bath and Kitchen	(18.9)	21.3	(14.7)	101.7
Vehicle Control Systems	63.8	57.3	191.2	193.0
Total Segment Income	292.5	293.4	833.0	816.0
Equity in net income of unconsolidated joint ventures	5.6	8.6	27.6	27.4
	298.1	302.0	860.6	843.4
Interest expense	29.7	28.9	91.6	89.1
Corporate and other expenses	57.0	51.8	172.2	154.9
Income before income taxes	211.4	221.3	596.8	599.4
Income Taxes	60.5	62.2	170.1	107.5
Net income applicable to common shares	$ 150.9	$ 159.1	$ 426.7	$ 491.9

Upon adoption of FAS 123R in 2006, each of the Company s segments includes compensation expense associated with share-based payment awards. For the three months ended September 30, 2006 segment income of Air Conditioning Systems and Services, Bath and Kitchen and Vehicle Control Systems includes $2.9 million, $1.0 million and $0.6 million, respectively, of compensation expense associated with share-based payment awards. For the nine months ended September 30, 2006 segment income of Air Conditioning Systems and Services, Bath and Kitchen and Vehicle Control Systems includes $8.6 million, $3.1 million and $1.8 million of compensation expense associated with share-based payment awards, respectively.

Corporate and other expenses are comprised of corporate functional spending, minority interest expense and other corporate expenses. Corporate functional spending includes salaries, fringe benefits, share-based compensation expense and professional fees associated with corporate functions such as human resources, finance, information technology, and legal. Other corporate expenses include costs associated with incentive compensation related to the corporate functions listed above, asbestos litigation costs, losses on sales of receivables associated with our receivable securitization programs (See Note 8 of Notes to Financial Statements in our Form 10-K

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for the year ended December 31, 2005), pension and post-retirement benefit costs related to the corporate functions listed above and accretion expense associated with the Company s post-retirement benefit plans (See Note 6 of Notes to Financial Statements in our Form 10-K for the year ended December 31, 2005), non-operating foreign exchange gains/losses and other miscellaneous corporate related expenses. For the three months and nine months ended September 30, 2006, corporate and other expenses include $3.3 million and $10.2 million, respectively, of compensation expense associated with share-based payment awards.

For a comparative analysis of this Summary Segment and Income Statement Data, see Management s Discussion and Analysis of Financial Condition and Results of Operations on the following pages.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

The Company operates in three major business segments: Air Conditioning Systems and Services, Bath and Kitchen and Vehicle Control Systems. Air Conditioning Systems and Services is a global manufacturer of commercial and residential heating, ventilation and air conditioning (HVAC) equipment systems and controls. Bath and Kitchen is a producer of bathroom and kitchen fixtures and fittings in Europe, the Americas and Asia. Vehicle Control Systems designs, manufactures and sells braking and control systems primarily for the worldwide commercial vehicle industry. Company management analyzes the performance of the business using the following general framework and describes the performance of the business in this context throughout the remainder of this discussion and analysis of financial condition and results of operations.

Sales The Company analyzes its sales activity based on the impacts of its pricing initiatives and the volume and mix of its products. The realization of price increases and the execution of the strategy to improve sales mix to more profitable new products are important to the Company in order to offset commodity and other cost escalations and grow profitability.

Productivity The Company identifies the impact of key productivity programs in the areas of materials procurement and labor.

Commodities Each of the Company s businesses use commodities such as steel, copper, aluminum and natural gas in the manufacturing process. The impact of changing costs for these commodities can have a significant impact on the Company s performance.

Investments The Company analyzes its ongoing costs for new products in each of its businesses and its investments in sales and marketing programs in support of sales growth. Investments in new products are important to sustaining organic growth and to improve the mix of products through innovation and new product launches.

Costs associated with shipping, handling, purchasing, receiving, inspecting, warehousing, internal transfer costs and other costs of distribution incurred on sales of products are included in the determination of segment income and total segment income and in the determination of cost of sales in the Consolidated Statement of Income. The Company s measure of cost of sales may not be comparable to those of other companies as some companies exclude a portion of these costs from cost of sales and include them in another caption within their income statement.

Financial Results Overview

Total segment income as referred to in the table below represents the summation of segment income of the Company s three business segments: Air Conditioning Systems and Services, Bath and Kitchen and Vehicle Control Systems. The presentation of total segment income and total segment income as a percentage of sales is not in conformity with GAAP. This measure may not be comparable to similar measures of other companies as not all companies calculate this measure in the same manner. In addition, the presentation of total segment income and total segment income as a percentage of sales are not meant to be substitutes for measurements prepared in conformity with GAAP, nor to be considered in isolation. Management believes that presenting these measures is useful to shareholders because it enhances their understanding of how management assesses the performance of the Company s businesses. In addition, the Company uses total segment income to make strategic and capital investment decisions, allocate resources and report business performance to the Board of Directors. Segment income also may be used, in part, to determine incentive compensation for certain employees. See Note 14 of Notes to Financial Statements for a reconciliation of segment income to net income applicable to common shares. In addition, please see the table directly below for presentation of total segment income as a percentage of sales and net income applicable to common shares as a percentage of sales and information on the presentation of segment income excluding effects of foreign exchange translation in results of operations by business segment. Net income applicable to common shares is the most directly comparable GAAP measure to total segment income.

Following is an analysis of changes in sales, total segment income and total segment income as a percentage of sales for the Company for the third quarter of 2006 compared with the third quarter of 2005, with and without the effects of foreign exchange translation.

			Three Months Ended September 30, 2006		
	Three Months Ended September 30,			Excluding foreign exchange translation 2006	
(Dollars in millions)	2005 Reported	2006 Reported	Percentage Change Reported	Adjusted Amount	Percentage Change Adjusted
Sales	$ 2,624.0	$ 2,964.8	13.0%	$ 2,914.5	11.1%
Total segment income	293.4	292.5	(0.3)%	289.0	(1.5)%
Total segment income as a percentage of sales	11.2%	9.9%	(1.3) pts.	9.9%	0.0 pts.
Net income applicable to common shares	$ 159.1	$ 150.9			
Net income applicable to common shares as a percentage of sales	6.1%	5.1%			

Sales in the third quarter of 2006 were $2,964.8 million, an increase of 13.0% (11.1% excluding favorable foreign exchange translation effects) from $2,624.0 million in the third quarter of 2005. Sales increased 15.1% for Air Conditioning Systems and Services, increased 5.1% for Bath and Kitchen and increased 16.0% for Vehicle Control Systems. Sales for the nine-months ended September 30, 2006 were $8,507.5 million, an increase of 10.2% (10.3% excluding unfavorable foreign exchange translation effects) from $7,719.3 million during the first nine months of 2005. Sales increased 15.1% for Air Conditioning Systems and Services, increased 0.4% for Bath and Kitchen and increased 7.4% for Vehicle Control Systems.

Total segment income was $292.5 million for the third quarter of 2006, a decrease of 0.3% (a decrease of 1.5% excluding favorable foreign exchange translation effects) from $293.4 million in the third quarter of 2005. Segment income increased $32.8 million or 15.3% for Air Conditioning Systems and Services, decreased $40.2 million for Bath and Kitchen and increased $6.5 million or 11.3% for Vehicle Control Systems. Total segment income for the third quarter of 2006 as compared to 2005 reflected strong performance in the Company s Air Conditioning Systems and Services and Vehicle Controls segments, which almost offset the significant decrease in performance of the Bath and Kitchen segment. The results of each of the Company s reportable segments are discussed in greater detail in the Results of Operations by Business Segment

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discussion that follows. Total segment income was $833.0 million for the first nine months of 2006, an increase of 2.1% with and without foreign exchange translation effects from $816.0 million during the first nine months of 2005. Segment income increased $135.2 million or 25.9% for Air Conditioning Systems and Services, decreased $116.4 million for Bath and Kitchen and decreased $1.8 million or 0.9% for Vehicle Control Systems. Segment income for the nine months ended September 30, 2006 was impacted by the same factors as discussed above.

Net income for the third quarter of 2006 was $150.9 million, down 5.2% from $159.1 million a year ago. Net income was $0.74 per diluted share in the third quarter of 2006, flat when compared to $0.74 per diluted share a year ago. Total segment income remained relatively flat year over year as improved performance in the Air Conditioning Systems and Services and Vehicle Control Systems principally offset significantly reduced performance in the Company s Bath and Kitchen segment. Net income in the quarter included $29.3 million of operational consolidation expenses ($20.2 million net of $9.1 million of tax benefits), primarily related to actions taken in the Bath and Kitchen segment as compared to $10.9 million ($6.6 million net of $4.3 million of tax benefits) in 2005 (see Note 9 of Notes to Financial Statements). Net income for the three months ended September 30, 2006 also included $7.8 million of compensation expense ($5.4 million net of $2.4 million of tax benefits and $0.03 per diluted share) attributable to the fair value of share based payment awards.

Net income for the nine months ended September 30, 2006 was $426.7 million, down 13.3% from $491.9 million a year ago. Net income was $2.06 per diluted share, down 8.8% from $2.26 per diluted share a year ago. The improvement in total segment income performance was not enough to offset lower tax benefits during 2006 as compared to 2005, which resulted in lower net income. Specifically, the Company recorded $84.4 million of tax benefits in 2005 primarily related to the resolution of tax audits, tax contingencies and the impact of other non-U.S. tax planning initiatives on prior tax years as compared to $12.5 million of benefits during the first nine months of 2006 primarily related to the reduction of a tax contingency and amounts principally related to adjustments of the 2005 tax provision to the final 2005 tax returns. Net income for the nine months ended September 30, 2006 included $52.3 million of operational consolidation expenses ($36.5 million net of $15.8 million of tax benefits) as compared to $55.5 million ($37.6 million net of $17.9 million of tax benefits) in 2005 (see Note 9 of Notes to Financial Statements). Net income for the nine months ended September 30, 2006 also included $23.7 million of compensation expense ($16.4 million net of $7.3 million of tax benefits and $0.08 per diluted share) attributable to the fair value of share based payment awards and a $6.3 million gain ($3.9 million net of tax benefits) associated with the sale of the ceramic cartridge manufacturing operation of its European Bath and Kitchen business.

In the third quarter of 2006, total segment income was essentially flat as compared to 2005. Total segment income in 2006 reflected improved pricing of approximately $59 million, volume and mix increases of approximately $57 million, productivity improvements through materials management and other programs of approximately $35 million and the benefits from prior operational consolidations of approximately $11 million. Offsetting these improvements were continued commodity, energy and logistics cost escalations of approximately $80 million primarily due to increased copper, aluminum and fuel costs, additional investments primarily in new product development and marketing of approximately $24 million, labor cost inflation and costs associated with inventory reduction programs related to Bath and Kitchen of approximately $28 million, increased operational consolidation expenses of $18 million and increased warranty costs of approximately $7 million primarily driven by higher sales. Segment income for the quarter also reflected $4.6 million of compensation expense attributable to the fair value of share based payment awards. The Company s performance for the nine months ended September 30, 2006 was impacted by many of the same items mentioned above. See discussions below for year over year change in segment income for each business segment.

In the fourth quarter, the Company plans to continue to evaluate additional operational consolidation activities, asset sales and tax items. However, the Company is not certain of the amount or timing of operational consolidation expenses and gains or losses on asset sales and tax items that may occur in the future.

The Company has elected to prospectively recognize stock compensation expense and has not restated prior period results. In 2005, the Company accounted for share based payment awards in accordance with APB 25. Since the exercise price of awards was equal to the fair market value of the Company s stock on the grant date, the Company was not required to recognize compensation expense for outstanding awards. A disclosure is included in Note 5 of Notes to Financial Statements regarding the impact of expensing the fair value of share based awards. The expense of $7.8 million ($5.4 million net of tax) recognized during the third quarter of 2006 represents an increase of $0.6 million when compared to the pro forma expense for the third quarter of 2005. The expense of $23.7 million ($16.4 million net of tax) recognized during the first nine months of 2006 represents an increase of $1.4 million when compared to the pro forma expense for the first nine months of 2005. The increase relates to restricted stock expense in 2006. As of September 30, 2006, the Company has unrecognized share based payment expense of $34.6 million that will be recognized over the remainder of the requisite service period, which the Company expects to be approximately $8.0 million per quarter in 2006. See Note 5 of Notes to Financial Statements.

Results of Operations by Business Segment

The following discussion and analysis addresses year-over-year changes in the line items shown in the Summary Segment and Income Statement Data in Note 14 of Notes to Financial Statements. Approximately half of the Company s business is outside the U.S. and therefore, changes in exchange rates can have a significant effect on segment income when presented in U.S. dollars. Year-over-year changes in sales and segment income and, in certain cases, segment income as a percentage of sales, for 2006 compared with 2005 are presented both with and without the effects of foreign exchange translation. Presenting segment income excluding the translation effects of foreign exchange 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 for understanding operational performance of the business. Management also uses data adjusted in this manner for purposes of determining incentive compensation. Accordingly, management believes that presenting information in this manner is also useful to shareholders in understanding the performance of the business. Changes in sales and segment income excluding foreign exchange effects are calculated using current year sales and segment income translated at prior year exchange rates. The presentation of sales, segment income, total segment income and segment income as a percentage of sales with and without the effects of foreign currency translation are not meant to be a substitute for measurements prepared in conformity with GAAP, nor to be considered in isolation.

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Air Conditioning Systems and Services Segment

Following is an analysis of changes in sales, segment income and segment income as a percentage of sales for Air Conditioning Systems and Services for the third quarter of 2006 compared with the third quarter of 2005, showing the effect of foreign exchange translation.

	Three Months Ended September 30,	Three Months Ended September 30, 2006		Excluding foreign exchange translation 2006	
	2005	2006	Percentage Change	Adjusted	Percentage Change
(Dollars in millions)	**Reported**	**Reported**	**Reported**	**Amount**	**Adjusted**
Sales	$ 1,599.0	$ 1,840.0	15.1%	$ 1,828.3	14.3%
Segment income	$ 214.8	$ 247.6	15.3%	$ 246.5	14.8%
Segment income as a percentage of sales	13.4%	13.5%	0.1pts.	13.5%	0.1pts.

Sales of Air Conditioning Systems and Services increased 15.1% (14.3% excluding favorable foreign exchange translation effects) to $1,840.0 million for the third quarter of 2006 from $1,599.0 million for the third quarter of 2005. Overall, sales benefited from favorable mix of high-efficiency residential equipment sales, continued improvements in commercial equipment sales and continued growing parts and services sales. Sales benefited during the third quarter of 2006 from price increases of approximately $50 million with the remainder of the increase driven by volume and mix. The price increases realized in the quarter helped offset rising copper and aluminum commodity costs, but despite such price increases the rising commodity costs continue to impact segment income as a percentage of sales. Commercial equipment sales, which represent approximately 25% of total Company sales, increased 17.5% on a global basis. This was the fourth consecutive quarter of double-digit growth and tenth consecutive quarter of growing commercial equipment sales at an accelerated rate. Within the commercial equipment segment, for the quarter global unitary sales were up 17.2%, and global applied sales were up 17.9%. Sales increased 9.4% in the parts, services and solutions part of our business for the quarter.

Globally, orders were up 25% (excluding favorable foreign exchange translation effects) in the third quarter of 2006 as compared to 2005. In the Americas, total orders were up 27%, with both applied and unitary orders experiencing double-digit growth. Internationally, orders increased 18% (excluding favorable foreign exchange translation effects) in the third quarter of 2006. Backlog at the end of the quarter was $982 million, up 50% (excluding favorable foreign exchange translation effects) from the third quarter of last year. This marks the eleventh consecutive quarter of year-over-year backlog growth. The Company believes that the current quarter s continued growth in sales, backlog and orders are indicators that global commercial equipment market is in the middle of its current growth cycle. The commercial equipment market in the U.S. was up an estimated 14% year-over-year, consisting of 3% growth in price and 10-11% growth in volume. Within the U.S. commercial equipment market, the Company experienced growth in the lodging, manufacturing, government and healthcare markets. Markets in Europe, the Middle East and Asia increased in the mid-single digits.

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Sales of the Company s residential products continued to grow, up 17.4% year-over-year. This increase was driven by the combination of favorable mix and improved price. Continued favorable mix was driven by the continued increase in sales of higher efficiency 13 SEER (Seasonal Energy Efficiency Ratio) and above models. The government mandated transition to higher efficiency technology, through its minimum 13 SEER requirement, became effective on January 23, 2006. Partially offsetting the favorable mix and improved price was a volume decrease during the quarter from lower market unit volume. The Company estimates that the residential unitary market was down approximately 25% in units in the third quarter of 2006 as compared to the third quarter of 2005. The Company believes that the market decrease in the third quarter was attributable to higher final buys of 10 SEER products in 2005 in advance of the 13 SEER transition in the first quarter of 2006, along with the slowing home building market and slightly cooler weather in 2006 as compared to 2005. The Company believes that the continued contraction of the U.S. housing market and the lack of 10 SEER pre-buy activity for the remainder of 2006 as compared to 2005 will continue to exert pressure on industry growth for the remainder of 2006.

Air Conditioning Systems and Services sales for the nine-months ended September 30, 2006 were $5,161.9 million up 15.1% when compared to sales for the nine-months ended September 30, 2005. Sales for the nine-months ended September 30, 2006 were favorably impacted by many of the same factors that drove revenue growth in the third quarter 2006.

Segment income of Air Conditioning Systems and Services increased 15.3% (14.8% excluding favorable foreign exchange translation effects) to $247.6 million in the third quarter of 2006 from $214.8 million in the third quarter of 2005. Segment income benefited from price increases of approximately $50 million, volume and mix increases of approximately $49 million, productivity improvements of approximately $17 million and benefits from prior operational consolidation programs of approximately $2 million. In addition, segment income included $2.9 million less of operational consolidation expenses as compared to 2005. These improvements were partially offset by commodity cost increases principally associated with copper and aluminum of approximately $49 million, labor cost and other operating costs escalations of approximately $19 million, incremental investments primarily in new product development and marketing of approximately $17 million and increased warranty costs of approximately $3 million. The residential business expects to continue to invest in higher energy-efficient solutions and new product launches associated with indoor air quality products and the commercial business will continue investments in new equipment and controls related products. Segment income for the third quarter of 2006 and the nine-months ended September 30, 2006 included $2.9 million and $8.6 million, respectively, of compensation expense associated with expensing the fair value of share-based payment awards.

Segment income increased 25.9% (25.6% excluding favorable foreign exchange translation effects) to $656.5 million in the first nine-months of 2006 from $521.3 million in the comparable prior period of 2005. The improvement in segment income during the first nine-months of 2006 was due to the same items as mentioned above. In addition, operational consolidation expenses for the first nine-months of 2006 were $0.4 million as compared to an expense of $25.0 million in 2005. Operational consolidation expenses in 2005 included charges associated with severance and job eliminations designed to improve the effectiveness and efficiency of the business on a global basis as well as charges associated with the closure of a plant.

Bath and Kitchen Segment

Following is an analysis of changes in sales, segment income and segment income as a percentage of sales for Bath and Kitchen for the third quarter of 2006 compared with the third quarter of 2005, showing the effect of foreign exchange translation.

(Dollars in millions)	Three Months Ended September 30, 2005 Reported	Three Months Ended September 30, 2006: 2006 Reported	Percentage Change Reported	Excluding foreign exchange translation 2006 Adjusted Amount	Percentage Change Adjusted
Sales	$ 590.0	$ 620.2	5.1%	$ 602.2	2.1%
Segment income	$ 21.3	$ (18.9)	(188.7)%	$ (18.7)	(187.8)%
Segment income as a percentage of sales	3.6%	(3.0)%	(6.6)pts.	(3.1)%	(6.7)pts.

Sales for Bath and Kitchen increased 5.1% (2.1% excluding favorable foreign exchange translation effects) to $620.2 million in the third quarter of 2006 from $590.0 million in the third quarter of 2005. Sales increased 7.6% in Europe (increased 2.9% excluding favorable foreign exchange translation effects) which is the Company s largest region for this segment, increased 2.1% in the Americas (increased 1.6% excluding favorable foreign exchange translation effects) and increased 3.4% in Asia (decreased 1.4% excluding favorable foreign exchange translation effects). The sales increase in Europe reflected favorable price and volume, which were partially offset by weaker mix. Sales in the Americas region benefited from pricing actions, but were adversely impacted by volume and mix, due in part to lower fittings sales as the business continued its launch of new products in this category. Sales in Asia were down as the Chinese government continued to tighten control over the expansion of its property markets. Sales for the nine-months ended September 30, 2006 were $1,849.9 million up 0.4% (0.6% excluding unfavorable foreign exchange translation effects) when compared to sales for the nine-months ended September 30, 2005. Sales for the nine-months ended September 30, 2006 were impacted by many of the third quarter 2006 factors described above.

Segment income for Bath and Kitchen decreased $40.2 million ($40.0 million excluding unfavorable foreign exchange translation effects) to $(18.9) million in the third quarter of 2006 from $21.3 million in the third quarter of 2005. Segment income was negatively impacted by a reduction in sales volumes primarily in the Americas and mix of approximately $9 million, approximately $22 million of commodity and logistics cost increases, including energy and certain metals, approximately $13 million of costs associated with lower production, inventory model reductions and labor and other cost escalations, approximately $5 million of increased investments in new product development and marketing, approximately $3 million related to increased warranty expenses and $19 million of additional operational consolidation charges in 2006 as compared to 2005. These were partially offset by approximately $20 million in price increases, approximately $5 million of productivity improvements and approximately $7 million of benefits associated with previous operational consolidation activities. Segment income for the third quarter of 2006 and the nine months ended September 30, 2006 also included the impact of $1.0 million and $3.1 million, respectively, of expense associated with expensing the fair value of share-based payment awards.

Segment income decreased $116.4 million ($115.9 million excluding unfavorable foreign exchange translation effects) to $(14.7) million in the first nine-months of 2006 from $101.7 million in the comparable period of 2005. The decrease in segment income in the first nine-months of 2006 was largely the result of the same items impacting results in the third quarter of 2006 mentioned above. Operational consolidation expenses for the first nine-months of 2006 were $45.4 million as compared to $22.5 million in the first nine-months of 2005.

The Company began to take actions in the fourth quarter of 2005 and throughout 2006 to improve manufacturing performance and developed plans to increase pricing and introduce new products in 2006. The status of these initiatives is as follows:

(i) Manufacturing operations in Europe continue to improve, which has led to increased product availability of higher value products to meet marketplace demand in Europe. New product launches in Europe are being received well and production levels continue to improve.

(ii) Sales in the Americas of the new improved version of the Cadet 3 mainstream toilet and Lifetime whirlpool tub are progressing well. However, the sales related to new fittings product launches such as the EverClean and Speed Connect faucets in the Americas are not growing at the rate the Company originally expected. This is adversely impacting financial performance in the Americas as fittings products typically generate higher margins than ceramic based products.

(iii) Positive results from pricing actions continue to be realized, but these actions are still lagging behind commodity and energy cost increases.

Bath and Kitchen financial results for the third quarter of 2006 fell below the Company s expectations. Commodity cost escalations and unexpected sales volume decreases in the Americas, as discussed above, account for the majority of the unfavorable performance in the third quarter of 2006. The Company expects performance in the fourth quarter of 2006 to be similar to that in the third quarter of 2006.

The Company continues to look for opportunities to improve productivity through simplification of business processes and product lines. To that end, Bath and Kitchen recognized $25.4 million of operational consolidation expense during the third quarter of 2006. Bath and Kitchen incurred $13.0 million of operational consolidation charges associated with a plan designed to keep the business cost competitive, optimize manufacturing capabilities and continue to rebuild the profitability of the business. Specifically, the Company announced on July 19, 2006 a consolidation of its ceramics manufacturing operations in the United Kingdom. The Company will discontinue the production of ceramics at its Hull location and relocate all of these products to more cost-effective locations. The charge is comprised of $7.7 million of severance and job elimination expenses and $5.3 of other exit related costs and is expected to result in approximately $10.9 million of annualized savings starting in 2007. The remainder of the third quarter charge is associated with other 2006 actions and the continuation of 2005 programs. Operational consolidation expenses for the third quarter of 2005 amounted to $6.5 million. Operational consolidation expenses for the first nine months of 2006 amounted to $45.4 million as compared to $22.5 million in the first nine months of 2005. The charges for the first nine months of 2006 relate to the third quarter action described above, charges from the second quarter related to plans to consolidate some new product development, supply chain, and finance and administrative activities in Europe and other 2006 actions. The cumulative 2006 actions discussed above are expected to yield savings of approximately $26 million on an annualized basis in 2007. In addition, the Company has initiated the following actions in an effort to continue to rebuild the profitability of the business and focus on the core of the Bath and Kitchen business:

(i) On May 31, 2006, as part of an outsourcing initiative, the Company sold the ceramic cartridge manufacturing operation of its European Bath and Kitchen business in order to reduce the cost structure of its fittings product portfolio. The Company received approximately $13.1 million of net cash proceeds from the sale transaction and recognized a pretax gain of approximately $6.3 million.

(ii) Continue to pursue the sale of a non-strategic product line of its Bath and Kitchen segment, which generates approximately $60 million of revenues on an annual basis. However, the timing of the transaction is uncertain and there can be no assurance that it will be completed.

The Company is currently evaluating additional operational consolidation actions to improve productivity and simplify processes given the unfavorable financial results in 2006. The nature, timing and costs of such actions is not yet determined.

Vehicle Control Systems Segment

Following is an analysis of changes in sales, segment income and segment income as a percentage of sales for Vehicle Control Systems for the third quarter of 2006 compared with the third quarter of 2005, showing the effect of foreign exchange translation.

	Three Months Ended September 30,	Three Months Ended September 30, 2006		Three Months Ended September 30, 2006 Excluding foreign exchange translation 2006	
(Dollars in millions)	**2005 Reported**	**2006 Reported**	**Percentage Change Reported**	**Adjusted Amount**	**Percentage Change Adjusted**
Sales	$ 435.0	$ 504.6	16.0%	$ 484.1	11.3%
Segment income	$ 57.3	$ 63.8	11.3%	$ 61.2	6.8%
Segment income as a percentage of sales	13.2%	12.6%	(0.6)pts.	12.6%	(0.6)pts.

Sales of Vehicle Control Systems for the third quarter of 2006 were $504.6 million, an increase of 16.0% (11.3% excluding favorable foreign exchange translation effects) from $435.0 million in the third quarter of 2005, due to strong global truck builds, increased content per vehicle, including new applications, and strong aftermarket growth. This increase was partially offset by approximately $11 million of pricing decreases. Sales in Europe, the Company s largest market, increased 19.3% (13.9% excluding favorable foreign exchange translation) despite negative pricing pressure as the European truck build market increased approximately 10%. Total aftermarket sales for the third quarter increased 15.5% (10.5% excluding favorable foreign exchange translation). Sales increased 4.2% in North America (with and without the effects of foreign exchange translation), as sales were impacted by the discontinuation of certain passenger car platforms. In Asia and Latin America, our sales increased 15.1% and decreased 10.9% (excluding foreign exchange translation effects), respectively. Sales in the Latin American market were impacted by the market contracting approximately 15%. Sales performance in Asia was in line with market growth in that region, which was up approximately 20%. The Company

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expects truck builds in the fourth quarter of 2006 to remain at relatively the same levels as experienced in the third quarter. The North American market is expecting a large decline in 2007 as a result of pre buy in advance of new emissions standards in 2007. Sales for the nine-months ended September 30, 2006 were $1,495.7 million up 7.4% when compared to sales for the nine-months ended September 30, 2005. The sales increases recognized in the first nine-months of 2006 were driven by the same factors as discussed above. Backlog at the end of the quarter was $805 million, up 10.6% (5.9% excluding favorable foreign exchange translation effects) from the third quarter of last year.

Segment income for Vehicle Control Systems increased 11.3% (6.8% excluding favorable foreign exchange translation effects) to $63.8 million in the third quarter of 2006 from $57.3 million in the third quarter of 2005. Segment income benefited from volume improvements, net of mix decreases of approximately $16 million, productivity improvements and operating expense reductions of approximately $16 million, and benefits of previously announced operational consolidation expenses of approximately $1.8 million. These improvements were partially offset by several items, including price decreases of approximately $ 11 million, commodity and logistics costs increases of approximately $9 million, investments primarily in new product development and marketing of approximately $2 million and labor cost increases of approximately $3 million. Segment income in 2006 as compared to 2005 includes $0.6 million of expense associated with expensing the fair value of share-based payment awards. The third quarter of 2006 included operational consolidation expenses of $3.4 million primarily associated with severance relating to 2006 plans. Operational consolidation expenses were $1.0 million during the third quarter of 2005. Segment income decreased 0.9% (0.2% excluding unfavorable foreign exchange translation effects) to $191.2 million in the first nine-months of 2006 from $193.0 million in the comparable prior period of 2005. The reduction in segment income for the first nine-months of 2006 was impacted by many of the same items as described above and a customer warranty concession that created higher warranty expense in the second quarter of 2006 as compared to the second quarter of 2005.

Other Summary Segment and Income Data Items

Equity in net income of unconsolidated joint ventures decreased to $5.6 million in the third quarter of 2006 from $8.6 million in the third quarter of 2005 and increased to $27.6 million for the first nine months of 2006 as compared to $27.4 million in the first nine months of 2005. The decrease in third quarter 2006 performance as compared to the third quarter of 2005 reflected a tax adjustment by our WABCO joint venture in India and weaker performance by our WABCO joint venture in the U.S. The improved performance during the nine-months ended September 2006 primarily resulted from the performance of our WABCO joint venture in India, which was partially offset by weaker performance by our Alliance compressor joint venture in the U.S and WABCO joint venture in the U.S.

Interest expense increased $0.8 million in the third quarter of 2006 compared with the third quarter of 2005 and increased $2.5 million in the first nine months of 2006 to $91.6 million from $89.1 million in the comparable prior period primarily resulting from higher interest rates.

Corporate and other expenses in the third quarter of 2006 increased $4.7 million to $56.5 million from $51.8 million in the third quarter of 2005 due principally to $3.3 million of compensation expense associated with expensing the fair market value of share-based payment awards. Corporate and other expenses for the nine-months ended September 30, 2006 amounted to $171.8 million, up $16.9 million from $154.9 million in the nine-months ended

September 30, 2005. The increase in corporate and other expenses for this period was primarily driven by $6.2 million in increased foreign exchange losses and $10.2 million of compensation expense in 2006 associated with expensing the fair market value of share- based payment awards. Corporate and other expenses, shown in the Summary Segment and Income Statement Data table in Note 14 of Notes to Financial Statements, primarily include some of the expenses classified as selling and administrative expenses in the Unaudited Summary Consolidated Statement of Income on page 2. Corporate and other expenses also include certain items classified in Other expense (income) in the Unaudited Summary Consolidated Statement of Income. Period-to-period changes in the significant components of Other expense (income) are explained by the comments in this paragraph on corporate expenses, and in the first paragraph of this section on equity in net income of unconsolidated joint ventures.

The income tax provision for the third quarter of 2006 was $60.5 million, or 28.6% of pre-tax income, compared with a provision of $62.2 million, or 28.1% of pre-tax income in the third quarter of 2005. The third quarter of 2006 tax provision reflected adjustments totaling $3.9 million principally related to adjustments of the 2005 tax provision to the final filed tax returns. The income tax rate for the third quarter of 2005 included the recording of an amount to adjust the tax provision to the final U.S. tax return. The tax provision for the first nine-months of 2006 was $170.1 million, or 28.5% of pre-tax income, compared with a provision of $107.5 million or 17.9% of pre-tax income for the nine-months ended September 30, 2005. The income tax rate for the first nine-months of 2006 included the $3.9 million of tax benefits referred to above as well as $9 million of benefits primarily related to the reduction of a tax contingency as a result of an expiring statute of limitations in a jurisdiction outside the U.S. as compared to $84.4 million of tax benefits in the first nine months of 2005 associated with the resolution of tax audits, tax contingencies, the impact of certain non-U.S. tax planning initiatives on prior tax years and an amount to adjust the tax provision to the final U.S. tax return.

We expect the Company s effective income tax rate to be in the range of 30% to 31%, excluding the impact of the resolution of tax audits, tax contingencies, changes in tax rules and regulations and assuming no significant changes in the geographic distribution of the Company s earnings.

Liquidity and Capital Resources

Cash flow provided by operating activities was $423.6 million in the first nine months of 2006 as compared to cash flow provided by operating activities of $536.5 million in the first nine months of 2005, a decrease of $112.9 million. The decrease was primarily attributable to increases in working capital. Working capital increased $435 million during the first nine months of 2006 as compared to $268.8 million during the first nine months of 2005. The increase was driven by higher sales volumes, as well as, the timing of cash collections. In addition, investments in inventory in the Air Conditioning Systems and Services business were higher during the first nine months of 2006, as the 2005 period reflected lower inventory balances due to the transition to 13 SEER technology.

The Company generated free cash flow of $273.4 million during the first nine months of 2006 as compared to $341.6 million in the first nine months of 2005. The decrease in free cash flow during the first nine months of 2006 was attributable principally to the reasons mentioned above. Management uses free cash flow when reviewing and assessing the performance of the business. Free cash flow is also one of several measures used to determine incentive compensation. The following table reconciles free cash flow to cash flows used in operating activities.

	Nine months ended September 30, 2006	2005
Net cash provided by operating activities	$ 423.6	$ 536.5
Other deductions or additions to reconcile to free cash flow:		
Purchases of property, plant, equipment and computer software	(166.2)	(221.4)
Proceeds from disposal of property	16.0	26.5
Free cash flow	$ 273.4	$ 341.6

The presentation of free cash flow is not in conformity with GAAP. This measure may not be comparable to similar measures of other companies as not all companies calculate this measure in the same manner. In addition, the presentation of free cash flow is not meant to be a substitute for measurements prepared in conformity with GAAP, nor to be considered in isolation. Cash flow from operating activities is the most directly comparable GAAP measure to free cash flow. Free cash flow is one of several measures used to determine incentive compensation for certain employees.

In investing activities, the Company made capital expenditures of $138.3 million in the first nine months of 2006 as compared to capital expenditures of $188.3 million in the first nine months of 2005. Capital expenditure outlays have stabilized with the completion of the 13 SEER transition in the residential air conditioning business and modernization of a commercial product line in the Air Conditioning Systems and Services segment. There were no investments in affiliated companies during the nine-months ended September 30, 2006 as compared to $20.0 million of investments during the comparable period in 2005. The investments in 2005 were made to purchase additional ownership in certain majority owned joint ventures in Europe and Asia from minority shareholders and the purchase of sales office operations in the Air Conditioning Systems and Services Segment.

The excess of cash provided by operating and investing activities for the first nine months of 2006 totaled $277.3 million and financing activities used $428.6 million. The net cash generated by operating and investing activities funded in part dividend payments and share repurchases totaling $108.9 million and $450.0 million, respectively. The excess of cash provided by operating and investing activities during the nine months of 2005 totaled $330.5 million and financing activities totaled a use of $225.4 million. The net cash generated by operating and investing activities funded in part dividend and share repurchases totaling $95.3 million and $338.4 million, respectively during the first nine months of 2005.

On October 5, 2006, the Board of Directors approved the payment of a dividend of $0.18 per share of common stock to be paid on December 20, 2006, to shareholders of record on December 1, 2006. On the same date, the Board of Directors approved the purchase of additional shares of an amount not to exceed $500 million. The Company expects to utilize this additional amount through December 31, 2007.

The Company has one primary bank credit agreement. The agreement was established on July 7, 2005. The agreement provides the Company and certain subsidiaries (the Borrowers) with a senior, unsecured, five-year $1 billion multi-currency revolving credit facility that expires in July 2010. Under the primary credit agreement, the Company, American Standard Inc., and ASII guarantee the debt obligations. The primary bank credit agreement contains various covenants that limit, among other things, liens, transactions, subsidiary indebtedness, and certain mergers

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and sales of assets. The covenants also require the Company to meet certain financial tests: ratio of consolidated debt to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization), and consolidated free cash flow to interest expense. The Company is currently in compliance with the covenants contained in the credit agreement.

At September 30, 2006, total indebtedness of the Company was $1,827.6 million. The Company had remaining borrowing capacity under its primary bank credit agreement at September 30, 2006 of $438.3 million after reduction for borrowings of $519.1 million and $42.6 million of outstanding letters of credit. In addition, the Company had $181.3 million available at September 30, 2006 under other facilities that can be withdrawn by the banks at any time and outstanding letters of credit issued by other banks of $112.8 million as of September 30, 2006.

From February 27, 2006 through July 18, 2006, American Standard Inc. executed 364 day U.S. dollar credit agreements with banking institutions totaling $150 million. The Company and ASII guarantee obligations under the agreements. The total amount outstanding as of September 30, 2006 was $70 million. Debt outstanding under the agreements was classified as long term debt in the accompanying consolidated balance sheet because the Company has the intent and ability to renew or refinance them.

In addition, a subsidiary of the Company has entered into a 40 million Euro Dollar ($51 million at September 30, 2006 exchange rates) 364 day credit agreement dated March 30, 2006. The facility is guaranteed by the Company, American Standard Inc. and ASII. As of September 30, 2006, there was $32 million outstanding. Also, a subsidiary of the Company has entered into a $50 million 364 day credit agreement dated April 13, 2006. The amount outstanding under this facility at September 30, 2006 was $36 million. Borrowings under this facility are in Canadian dollars. The facility is guaranteed by the Company, American Standard Inc. and ASII.

On June 1, 2006 the 7.125% Euro Senior Notes became due and payable. The Company repaid this debt with borrowings from its primary bank credit agreement.

Consistent with prior quarters, at September 30, 2006, the Company was restricted from remitting approximately $58.9 million from China to the U.S. largely due to the absence of locally accumulated statutory earnings. The Company does not believe that such restrictions or other similar restrictions which may affect certain of the Company s foreign subsidiaries will materially affect the Company s liquidity. The Company does not rely on its cash balance in existence at any point in time to fund operations, but rather its ongoing cash flows from operations.

The Company believes that the amounts available from operating cash flows, funds available under its credit agreements and future borrowings under the remaining $540.0 million of a $1.0 billion shelf registration statement filed with the Securities and Exchange Commission and access to public and private debt markets will be sufficient to meet the Company s expected operating needs and planned capital expenditures for the foreseeable future.

Off-Balance Sheet Arrangements

The Company employs several means to manage its liquidity and is not dependent upon any one source of funding. In addition to funds available from operating cash flows, bank credit agreements and the public and private debt and equity markets as described above, the Company uses two principal off-balance sheet techniques: operating leases and receivables financing arrangements. Operating leases are employed as an alternative to purchasing certain property, plant and equipment when cost effective to do so. Receivables financing arrangements are used to reduce borrowing costs. Future rental commitments under all non-cancelable leases have not changed significantly from the amounts disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. To reduce its borrowing cost, during 2002 the Company established accounts receivable financing facilities in Europe and the U.S. These facilities are subject to annual renewals. The facility in Europe was renewed in May 2006. The U.S. facility was renewed in September 2006. The Company has the ability to renew these facilities and intends to renew them upon their expiration. The amounts of receivables sold under these securitization programs have not changed significantly from the amounts disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. On June 13, 2006, the Company increased the limit on the amount of receivables that can be sold into its U.S. accounts receivable securitization program from $175 million to $200 million.

The Company has commitments and performance guarantees, including energy savings guarantees totaling $68.1 million extending from 2006 to 2025, under long-term service and maintenance contracts related to its Air Conditioning Systems and Services business. Through September 30, 2006 the Company has only experienced one insignificant loss under such arrangements and considers the probability of any significant future losses to be unlikely.

Aggregate Contractual Obligations

The Company has contractual obligations for long-term debt, operating leases, purchase obligations, unfunded pension and post-retirement benefit plans and certain other long-term liabilities that were summarized in a table of aggregate contractual obligations in our 2005 Annual Report on Form 10-K. There have been no material changes to those obligations since December 31, 2005.

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. This Report on Form 10-Q includes important information as to risk factors in the sections titled Legal Proceedings and Management s Discussion and Analysis of Financial Condition and Results of Operations. Many important factors could cause actual results to differ materially from management s expectations, including:

- the level of end market activity in the Company s Air Conditioning Systems and Services and Bath and Kitchen businesses and the level of truck and bus production in the Company s Vehicle Control Systems markets;

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weather conditions as unexpected cool trends or unseasonably warm trends during the summer season could negatively or positively affect business and results of operations in Air Conditioning Systems and Services;

the extent to which the Company will be able to realize the estimated savings from materials management and Six Sigma initiatives;

additional developments which may occur that could affect the Company s estimate of asbestos liabilities and recoveries, such as the nature and number of future claims, the average cost of disposing of such claims, average annual defense costs, the amount of insurance recovery, legislation or legal decisions affecting claims criteria or payout;

unpredictable difficulties or delays in the development of new product technology;

changes in U.S. or international economic conditions, such as inflation, interest rate fluctuations, foreign exchange rate fluctuations or recessions in the Company s markets;

pricing changes to the Company s supplies or products or those of its competitors, and other competitive pressures on pricing and sales;

increased difficulties in obtaining a consistent supply of those basic materials at pricing levels which will not have an adverse effect on results of operations;

labor relations; integration of acquired businesses;

difficulties in obtaining or retaining the management and other human resource competencies that the Company needs to achieve its business objectives;

the impact on the Company or a segment from the loss of a significant customer or a few customers;

risks generally relating to the Company s international operations, including governmental, regulatory or political changes;

changes in environmental, health or other regulations that may affect one or more of the Company s current products or future products;

assumptions made related to post-retirement benefits, including rate of return on plan assets, the discount rate applied to projected benefit obligations and the rate of increase in the health care cost trend rate;

changes in laws or different interpretations of laws that may affect the Company s expected effective tax rate for 2006;

periodic adjustments to litigation reserves;

the outcome of lawsuits and other contingencies, including government investigations;

transactions or other events affecting the need for, timing and extent of the Company s capital expenditures; and

adoption of new accounting pronouncements promulgated by the Financial Accounting Standards Board or other accounting standard setting agencies.

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Critical Accounting Policies and Estimates

Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Management believes the most complex and sensitive judgments, because of their significance to the consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management s Discussion and Analysis and Notes 2 and 14 to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, describe the most significant accounting estimates and policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ materially from management s estimates. There have been no significant changes in the Company s assumptions regarding critical accounting estimates during the first nine months of 2006.

Stock-Based Compensation - The Company adopted the provisions of Statement of Financial Accounting Standard No. 123 (Revised 2004) (FAS 123R), *Share Based Payments* on January 1, 2006. FAS 123R requires the Company to measure and recognize in its consolidated statement of income the expense associated with all share-based payment awards made to employees and directors including stock options, restricted stock units, restricted stock grants and discounts on employee stock purchases associated with the Employee Stock Purchase Plan (ESPP) based on estimated fair values. The Company utilizes the Black-Scholes option valuation model to measure the amount of compensation expense to be recognized for each option award. There are several assumptions that must be made when using the Black-Scholes model such as the expected term of each option, the expected volatility of the stock price during the expected term of the option, the expected dividends to be paid and the risk free interest rate expected during the option term. The Company has reviewed each of these assumptions carefully and based on the analysis discussed in Note 5 of Notes to Financial Statements determined its best estimate for these variables. Of these assumptions, the expected term of the option and expected volatility of the Company s common stock are the most difficult to estimate since they are based on the exercise behavior of employees and expected performance of the Company s stock. An increase in the volatility of the Company s stock will increase the amount of compensation expense on new awards. An increase in the holding period of options will also cause an increase in compensation expense. Dividend yields and risk-free interest rates are less difficult to estimate, but an increase in the dividend yield will cause a decrease in expense and an increase in the risk-free interest rate will increase compensation expense.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the disclosure on this matter made in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

Item 4. Controls and Procedures

The Company has established a Disclosure Controls Committee that assists the Chief Executive Officer and Chief Financial Officer in their evaluation of the Company s disclosure

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controls and procedures. Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures, as defined in the Securities Exchange Act of 1934, Rule 13a-15(e), are (i) effective to ensure that the information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and (ii) is accumulated and communicated to the Company s management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no significant changes since June 30, 2006, except as discussed below.

As previously reported, the Company was named as a defendant in several lawsuits filed in the United States District Court for the Eastern District of Pennsylvania alleging that the Company and certain of its competitors conspired to fix prices for fittings and fixtures in the United States. These cases have been consolidated, and in September 2005 the Company filed a motion to dismiss the complaint which was argued before the trial court in January 2006. On July 19, 2006, the trial judge granted the Company s motion to dismiss the complaint and granted the plaintiffs 30 days to file an amended complaint. The Court thereafter granted plaintiffs an additional two weeks in which to file an amended complaint, but plaintiffs failed to do so, and the complaint has been dismissed.

As previously reported, in November 2004, the Company was contacted by the European Commission as part of a multi-company investigation into possible infringement of European Union competition regulations relating to the distribution of bath and kitchen fittings and fixtures in certain European countries. In November 2005, the European Commission sent the Company a written request for information. The Company is cooperating fully with the investigation which is ongoing. The Company believes that the European Commission is preparing a statement of objections setting forth its allegations against the parties involved, including the Company.

See also Note 6 of Notes to Financial Statements for additional discussion of legal proceedings.

Item 1A. Risk Factors

There have been no significant changes to the risk factors disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company s Board of Directors has on several occasions since 1998 approved expenditures under a program to purchase shares of the Company s common stock in the open market. The Company has continually stated publicly since 1998 its intention to repurchase shares of its common stock pursuant to those authorizations. On December 8, 2005, the Company s Board of Directors approved $500 million to purchase shares of the Company s common stock in the open market. As of September 30, 2006, the unexpended authorization on the current program totaled $12.5 million. A summary of the repurchase activity for the first nine months of 2006 follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (a)**
January 1-January 31	887,100	$ 38.83	887,100	$ 428,005,297
February 1-February 28	2,299,650	$ 38.88	2,299,650	$ 338,603,129
March 1-March 31	1,304,400	$ 40.82	1,304,400	$ 285,354,303
Total first quarter	4,491,150	$ 39.43	4,491,150	
April 1-April 30	499,650	$ 43.00	499,650	$ 263,868,972
May 1-May 31	1,766,800	$ 44.22	1,766,800	$ 185,736,950
June 1-June 30	1,868,700	$ 41.31	1,868,700	$ 108,541,807
Total second quarter	4,135,150	$ 42.76	4,135,150	
July 1-July 31	497,900	$ 40.70	497,900	$ 88,274,947
August 1-August 31	1,085,400	$ 40.20	1,085,400	$ 44,641,612
September 1-September 30	763,400	$ 42.16	763,400	$ 12,453,645
Total third quarter	2,346,700	$ 40.95	2,346,700	
Total through September 30	10,973,000(b)	$ 41.01	10,973,000	

(a) As of December 31, 2005, the Company had one unexpended authorization by the Board of Directors under its share repurchase program. The authorization by the Board of Directors on December 8, 2005 approved the purchase of shares in an amount not to exceed $500,000,000 with no expiration date. The unexpended balance of $462,451,970 under that authorization as of December 31, 2005 was used to repurchase shares in the first nine months of 2006 and will continue to be used to repurchase shares for the remainder of 2006. On October 5, 2006, the Board of Directors approved the purchase of additional shares in an amount not to exceed $500,000,000. The Company expects to utilize this amount through December 31, 2007.

(b) All share repurchases were effected in accordance with the safe harbor provisions of Rule 10b-18 of the Securities Exchange Act.

Item 6. Exhibits

The exhibits listed on the accompanying Index to Exhibits are filed as part of this quarterly report on Form 10-Q.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN STANDARD COMPANIES INC.

/s/ Brad M. Cerepak
Brad M. Cerepak
Vice President and Controller
(Principal Accounting Officer)

October 24, 2006

AMERICAN STANDARD COMPANIES INC.

INDEX TO EXHIBITS

(The File Number of the Registrant, American Standard Companies Inc. is 1-11415)

Exhibit No.	Description
12	Ratio of Earnings to Fixed Charges.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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