JOHNSON CONTROLS INC
Form 10-Q/A
December 22, 2005

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q/A
(Amendment No. 2)

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

For the quarterly period ended March 31, 2005

OR

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

For the transition period from __________ to

Commission File Number 1-5097
JOHNSON CONTROLS, INC.
(Exact name of registrant as specified in its charter)

Wisconsin	39-0380010
(State of Incorporation)	(I.R.S. Employer Identification No.)

5757 North Green Bay Avenue, P.O. Box 591, Milwaukee, WI 53201
(Address of principal executive office)
Registrant s telephone number, including area code: (414) 524-1200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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

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

Class	Outstanding at March 31, 2005
Common Stock $.04 1/6 Par Value	192,037,907

JOHNSON CONTROLS, INC.
FORM 10-Q/A
March 31, 2005
REPORT INDEX

Table of Contents

EXPLANATORY NOTE

This Form 10-Q/A (Amendment No. 2) is being filed to amend and restate the financial statements and certain disclosure items related to the deconsolidation of a North American joint venture in response to comments raised by the Staff of the Securities and Exchange Commission and to provide certain disclosure items related to guarantor financial information in the Form 10-Q for the three and six month periods ended March 31, 2005 (the 2005 Second Quarter Form 10-Q), which was originally filed with the Securities and Exchange Commission on May 6, 2005, and amended on August 9, 2005 (the 2005 Second Quarter Form 10-Q/A).

Revising the financial statements also requires Johnson Controls, Inc. (the Company) to restate certain information that is disclosed in the notes to the Consolidated Financial Statements, primarily Note 2 Inventories, Note 5 Research and Development, Note 9 Goodwill and Other Intangible Assets, Note 11 Segment Information and Note 12 Income Taxes. In addition, the Company has added Note 15 Deconsolidation of a Joint Venture (Restated) and Note 16 Guarantor Financial Statements (Restated). Management s Discussion and Analysis of Financial Condition and Results of Operations was also amended to reflect the revised financial statements.

The Company has determined that a control deficiency related to the Company s misapplication of SFAS 94, Consolidation of All Majority-Owned Subsidiaries giving rise to the restatement constituted a material weakness in our internal control over financial reporting. The Company has also determined that a control deficiency over the Company s identification and reporting of the required guarantor subsidiary financial statement disclosures in the Company s financial statements as required by Rule 3-10 of Regulation S-X constituted a material weakness in our internal control over financial reporting. The Company rescinded all intercompany upstream guarantees and replaced them with alternative intercompany arrangements in November 2005. See Item 4. Controls and Procedures in Part I of this Form 10-Q/A for additional information.

The restatement related to the deconsolidation of the North American joint venture results in changes to certain financial statement line items as reported in the Consolidated Financial Statements. Revenues and expenses previously recorded in certain consolidated financial statement line items are now reported on a net basis as Equity income in the Consolidated Statement of Income and the Company s net investment in the joint venture is reported in the Investments in partially-owned affiliates line in the Consolidated Statement of Financial Position. Neither restatement impacts previously reported income from continuing operations, net income or earnings per share.

This amendment presents the 2005 Second Quarter Form 10-Q/A, as amended, in its entirety, but does not modify or update the disclosure in the 2005 Second Quarter Form 10-Q/A in any way other than as required to reflect the changes discussed above and does not reflect events occurring after the original filing of the 2005 Second Quarter Form 10-Q on May 6, 2005.

Table of Contents

Part I FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

JOHNSON CONTROLS, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in millions, unaudited)

	March 31, 2005	Restated September 30, 2004	March 31, 2004
ASSETS			
Cash and cash equivalents	$ 244.9	$ 99.2	$ 169.8
Accounts receivable net	4,201.9	3,815.9	3,459.4
Costs and earnings in excess of billings on uncompleted contracts	320.2	271.8	304.7
Inventories	889.7	858.3	783.7
Assets of discontinued operations		579.8	566.2
Other current assets	941.9	725.5	778.2
Current assets	6,598.6	6,350.5	6,062.0
Property, plant and equipment net	3,384.4	3,333.9	3,010.0
Goodwill net	3,674.4	3,566.2	3,166.6
Other intangible assets net	286.7	290.9	263.8
Investments in partially-owned affiliates	423.4	447.6	576.8
Other noncurrent assets	847.3	769.3	784.6
Total assets	$ 15,214.8	$ 14,758.4	$ 13,863.8
LIABILITIES AND SHAREHOLDERS EQUITY			
Short-term debt	$ 382.4	$ 813.3	$ 657.6
Current portion of long-term debt	218.9	226.7	32.1
Accounts payable	3,604.6	3,425.3	3,298.8
Accrued compensation and benefits	674.1	592.4	520.1
Accrued income taxes		48.6	
Billings in excess of costs and earnings on uncompleted contracts	233.2	197.2	205.2
Liabilities of discontinued operations		228.5	197.4
Other current liabilities	1,067.3	888.8	891.4
Current liabilities	6,180.5	6,420.8	5,802.6
Long-term debt	1,664.6	1,630.6	1,888.9
Postretirement health and other benefits	153.6	164.1	166.6
Minority interests in equity of subsidiaries	142.8	121.5	102.5
Other noncurrent liabilities	1,381.7	1,215.1	1,133.9
Shareholders equity	5,691.6	5,206.3	4,769.3

Total liabilities and shareholders equity	$ 15,214.8	$ 14,758.4	$ 13,863.8

The accompanying notes are an integral part of the financial statements.

Table of Contents

JOHNSON CONTROLS, INC.
CONSOLIDATED STATEMENT OF INCOME
(in millions, except per share data; unaudited)

	Three Months Ended March 31, Restated		Six Months Ended March 31, Restated	
	2005	2004	2005	2004
Net sales				
Products and systems*	$ 6,088.6	$ 5,364.6	$ 11,902.4	$ 10,623.8
Services*	810.8	757.3	1,614.8	1,470.8
	6,899.4	6,121.9	13,517.2	12,094.6
Cost of sales				
Products and systems	5,410.8	4,704.0	10,561.6	9,286.0
Services	661.2	629.1	1,322.8	1,209.5
	6,072.0	5,333.1	11,884.4	10,495.5
Gross profit	827.4	788.8	1,632.8	1,599.1
Selling, general and administrative expenses	574.5	568.6	1,160.6	1,150.0
Restructuring costs	210.0	82.4	210.0	82.4
Japanese pension gain		(84.4)		(84.4)
Operating income	42.9	222.2	262.2	451.1
Interest income	2.7	3.6	6.8	5.4
Interest expense	(30.4)	(26.7)	(61.0)	(53.8)
Equity income	18.4	23.0	39.7	46.1
Miscellaneous net	(11.8)	(6.3)	(16.0)	(31.3)
Other income (expense)	(21.1)	(6.4)	(30.5)	(33.6)
Income from continuing operations before income taxes and minority interests	21.8	215.8	231.7	417.5
Income tax (benefit) provision	(38.0)	56.5	0.9	92.7
Minority interests in net earnings of subsidiaries	6.0	11.8	20.8	21.8
Income from continuing operations	53.8	147.5	210.0	303.0
Income from discontinued operations, net of income taxes	3.9	10.2	16.1	19.2
	144.8		144.8	

Gain on sale of discontinued operations, net of income taxes								
Net income	$	202.5	$	157.7	$	370.9	$	322.2
Earnings available for common shareholders	$	202.5	$	157.7	$	370.9	$	320.4
Earnings per share from continuing operations								
Basic	$	0.28	$	0.78	$	1.10	$	1.63
Diluted	$	0.28	$	0.77	$	1.08	$	1.57
Earnings per share								
Basic	$	1.06	$	0.83	$	1.94	$	1.73
Diluted	$	1.04	$	0.82	$	1.91	$	1.67

* Products and systems consist of Seating & Interiors products and systems, Battery Group products and Controls Group installed systems. Services are Controls Group technical and facility management services.

The accompanying notes are an integral part of the financial statements.

Table of Contents

JOHNSON CONTROLS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions; unaudited)

	Three Months Ended March 31, Restated		Six Months Ended March 31, Restated	
	2005	2004	2005	2004
Operating Activities				
Net income	$ 202.5	$ 157.7	$ 370.9	$ 322.2
Gain and income from discontinued operations	(148.7)	(10.2)	(160.9)	(19.2)
Income from continuing operations	53.8	147.5	210.0	303.0
Adjustments to reconcile income from continuing operations to cash provided by operating activities				
Depreciation	155.5	136.5	307.3	270.9
Amortization of intangibles	5.6	4.5	11.5	9.4
Equity in earnings of partially-owned affiliates, net of dividends received	(6.8)	(22.7)	(27.7)	(25.2)
Minority interests in net earnings of subsidiaries	6.0	11.8	20.8	21.8
Deferred income taxes	(97.1)	47.0	(97.5)	54.2
Japanese pension settlement gain		(84.4)		(84.4)
Non cash restructuring costs	45.8	6.6	45.8	6.6
Other	(4.5)	(14.9)	(5.0)	(12.2)
Changes in working capital, excluding acquisitions and divestitures of businesses				
Receivables	(460.1)	(266.8)	(266.0)	(77.9)
Inventories	9.5	(2.2)	2.6	15.5
Other current assets	(31.2)	(34.2)	(89.7)	(21.4)
Restructuring reserves	164.2	65.7	164.2	65.7
Accounts payable and accrued liabilities	410.4	316.6	149.4	(119.9)
Accrued income taxes	(74.6)	(5.0)	(64.9)	31.7
Billings in excess of costs and earnings on uncompleted contracts	16.4	(1.4)	31.5	12.2
Cash provided by operating activities of continuing operations	192.9	304.6	392.3	450.0
Investing Activities				
Capital expenditures	(142.5)	(198.0)	(282.6)	(380.2)
Sale of property, plant and equipment	3.4	9.6	7.6	18.5
Acquisition of business, net of cash acquired			(33.1)	(36.6)
Proceeds from sale of discontinued operations	687.2		687.2	
Recoverable customer engineering expenditures	(8.7)	5.4	(12.0)	(43.7)
Changes in long-term investments	35.8	(7.2)	28.1	(2.7)

Cash provided (used) by investing activities	575.2	(190.2)	395.2	(444.7)
Financing Activities				
(Decrease) increase in short-term debt net	(522.7)	(61.5)	(434.2)	515.4
Increase in long-term debt	10.1	67.1	13.5	117.0
Repayment of long-term debt	(21.6)	(106.7)	(98.3)	(530.6)
Payment of cash dividends	(92.1)	(79.9)	(95.7)	(85.3)
Other	18.0	23.2	30.1	38.0
Cash (used) provided by financing activities	(608.3)	(157.8)	(584.6)	54.5
Cash (used) provided by discontinued operations	(22.8)	0.2	(57.2)	26.1
Increase (decrease) in cash and cash equivalents	$ 137.0	($43.2)	$ 145.7	$ 85.9

The accompanying notes are an integral part of the financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Financial Statements

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These condensed financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company s Amended Annual Report on Form 10-K/A for the year ended September 30, 2004. The September 30, 2004 Consolidated Statement of Financial Position is derived from the audited financial statements, adjusted for discontinued operations (See Note 3). The results of operations for the three and six month periods ended March 31, 2005 are not necessarily indicative of the results which may be expected for the Company s 2005 fiscal year because of seasonal and other factors. Certain prior period amounts have been reclassified to conform to the current period s presentation.

2. Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for most inventories at domestic locations. The cost of other inventories is determined on the first-in, first-out (FIFO) method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. Inventories were comprised of the following:

(in millions)	March 31, 2005	September 30, 2004	March 31, 2004
Raw materials and supplies	$ 473.1	$ 460.9	$ 430.0
Work-in-process	143.7	136.7	115.6
Finished goods	301.1	288.5	264.8
FIFO inventories	917.9	886.1	810.4
LIFO reserve	(28.2)	(27.8)	(26.7)
Inventories	$ 889.7	$ 858.3	$ 783.7

3. Discontinued Operations

In February 2005, the Company completed the sale of its engine electronics business, included in Seating & Interiors Europe to Valeo for approximately 323 million, or about $427 million. This non-core business was acquired in fiscal 2002 from Sagem SA. The sale of the engine electronics business resulted in a gain of approximately $90 million ($57 million after tax), net of related costs.

In March 2005, the Company completed the sale of its Johnson Controls World Services, Inc. subsidiary (World Services), included in the Controls Group segment, to IAP Worldwide Services, Inc. for approximately $268 million, of which $260 million was received in the current period. The remaining proceeds of the sale are expected be received in the third quarter of fiscal 2005. This non-strategic business was acquired in fiscal 1989 from Pan Am Corporation. The sale of World Services resulted in a gain of approximately $144 million ($88 million after tax), net of related costs and subject to certain adjustments.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The following summarizes the revenues, expenses and related gain on sale of the discontinued operations:

	Engine Electronics (1)				Johnson Controls World Services, Inc. (2)			
	Three Months Ended March 31,		Six Months Ended March 31,		Three Months Ended March 31,		Six Months Ended March 31,	
(in millions)	2005	2004	2005	2004	2005	2004	2005	2004
Net sales	$ 80.9	$ 109.4	$ 199.7	$ 200.6	$ 185.3	$ 204.2	$ 340.4	$ 354.8
Cost of sales	72.4	93.8	172.3	169.4	175.1	187.8	318.6	328.0
Gross profit	8.5	15.6	27.4	31.2	10.2	16.4	21.8	26.8
Selling, general and administrative expenses	10.1	11.5	16.8	18.8	3.7	4.2	8.1	8.6
Operating (loss) income	(1.6)	4.1	10.6	12.4	6.5	12.2	13.7	18.2
Miscellaneous net					1.2	1.3	1.4	1.4
Income (loss) before income taxes and minority interests	(1.6)	4.1	10.6	12.4	7.7	13.5	15.1	19.6
Provision (benefit) for income taxes	(0.6)	1.4	3.7	4.4	3.0	5.3	5.8	7.7
Minority interests					(0.2)	0.7	0.1	0.7
Net income (loss)	($1.0)	$ 2.7	$ 6.9	$ 8.0	$ 4.9	$ 7.5	$ 9.2	$ 11.2
Earnings (loss) per share from discontinued operations								
Basic	($0.01)	$ 0.01	$ 0.03	$ 0.04	$ 0.03	$ 0.04	$ 0.05	$ 0.06
Diluted	($0.01)	$ 0.01	$ 0.03	$ 0.04	$ 0.03	$ 0.04	$ 0.05	$ 0.06
Earnings per share from gain on sale of discontinued operations								
Basic	$ 0.30		$ 0.30		$ 0.46		$ 0.46	
Diluted	$ 0.29		$ 0.30		$ 0.45		$ 0.45	

(1) Engine Electronics includes revenues and expenses through February 28, 2005, the effective date of the disposition.

(2) World Services includes revenues and expenses through March 30, 2005, the effective date of disposition.

Assets of the engine electronics business as of the disposal date totaled $427 million, which consisted of goodwill ($154 million), accounts receivable ($100 million), property, plant and equipment net ($69 million), other intangible assets net ($59 million) and other miscellaneous assets ($45 million). Liabilities of the engine electronics business as of the disposal date totaled $90 million, which consisted of accounts payable ($82 million) and other miscellaneous liabilities ($8 million).

Assets of World Services as of the disposal date totaled $178 million, which consisted of accounts receivable ($127 million), goodwill ($30 million), property, plant and equipment net ($10 million) and other miscellaneous assets ($11 million). Liabilities of World Services as of the disposal date totaled $54 million, which consisted of accounts payable ($32 million) and other miscellaneous liabilities ($22 million).

4. Product Warranties

The Company provides warranties to certain of its customers depending upon the specific product and terms of the customer purchase agreement. Most of the Company s product warranties are customer specific. A typical warranty program requires replacement of defective products within a specified time period from the date of sale. The Company records an estimate for future warranty-related costs based on actual historical return rates. Based on analysis of return rates and other factors, the warranty provisions are adjusted as necessary. While warranty costs

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

have historically been within calculated estimates, it is possible that future warranty costs could exceed those estimates. The Company s product warranty liability is included in Other current liabilities in the Consolidated Statement of Financial Position.

The changes in the carrying amount of total product warranty liability for the six month period ended March 31, 2005 were as follows:

(in millions)	
Balance as of September 30, 2004	$ 65.2
Accruals for warranties issued during the period	21.3
Accruals related to pre-existing warranties (including changes in estimates)	(1.4)
Accruals from acquisition	0.2
Settlements made (in cash or in kind) during the period	(26.7)
Currency translation	1.7
Balance as of March 31, 2005	$ 60.3

5. Research and Development

Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within Selling, general and administrative expenses. Such expenditures amounted to approximately $216 million and $241 million for the three months ended March 31, 2005 and 2004, respectively. Expenditures of approximately $433 million and $479 million were recorded for the six months ended March 31, 2005 and 2004, respectively. The lower spending related to research and development is due to the completion of expenditures associated with prior year launches.

A portion of the costs associated with these activities is reimbursed by customers, and totaled approximately $105 million and $92 million for the three months ended March 31, 2005 and 2004, respectively, and approximately $180 million and $164 million for the six months ended March 31, 2005 and 2004, respectively.

6. Stock-Based Compensation Stock Options

Effective October 1, 2002, the Company voluntarily adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation and adopted the disclosure requirements of SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure an amendment of FAS 123. In accordance with SFAS No. 148, the Company has adopted the fair value recognition provisions on a prospective basis and, accordingly, the expense recognized in the three and six month period ended March 31, 2005 represents a pro rata portion of the fiscal 2005, 2004 and 2003 grants which are earned over a three-year vesting period.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The following table illustrates the pro forma effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each period:

	Three Months Ended March 31,		Six Months Ended March 31,	
(in millions)	2005	2004	2005	2004
Net income, as reported	$ 202.5	$ 157.7	$ 370.9	$ 322.2
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	3.3	3.7	6.7	7.3
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(3.3)	(5.3)	(7.5)	(10.8)
Pro forma net income	$ 202.5	$ 156.1	$ 370.1	$ 318.7
Earnings per share				
Basic as reported	$ 1.06	$ 0.83	$ 1.94	$ 1.73
Basic pro forma	$ 1.06	$ 0.82	$ 1.94	$ 1.71
Diluted as reported	$ 1.04	$ 0.82	$ 1.91	$ 1.67
Diluted pro forma	$ 1.04	$ 0.81	$ 1.91	$ 1.66

During December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, Share-Based Payment (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. Stock-based payments include stock option grants and certain transactions under other Company stock plans. The Company grants options to purchase common stock to some of its employees and directors under various plans at prices equal to the market value of the stock on the dates the options were granted. In April 2005, the Securities and Exchange Commission amended the effective date of SFAS 123R to the first interim period of the first fiscal year beginning after June 15, 2005. The Company is currently evaluating the impact that the adoption of SFAS 123R will have on its consolidated financial position, results of operations and cash flows.

7. Guarantees

The Company has guaranteed the residual value related to the Company aircraft accounted for as synthetic leases. The guarantees extend through the lease maturity dates of September 2006. In the event the Company exercised its option not to purchase the aircraft for the remaining obligations at the scheduled maturity of the leases, the Company has guaranteed the majority of the residual values, not to exceed $53 million in aggregate. The Company has recorded a liability of approximately $3 million within Other noncurrent liabilities and a corresponding amount within Other noncurrent assets in the Consolidated Statement of Financial Position relating to the Company s obligation under the guarantees. These amounts are being amortized over the life of the guarantees.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

8. Earnings Per Share

The following table reconciles the numerators and denominators used to calculate basic and diluted earnings per share:

	Three Months Ended March 31,		Six Months Ended March 31,	
(in millions)	2005	2004	2005	2004
Income Available to Common Shareholders				
Net income	$ 202.5	$ 157.7	$ 370.9	$ 322.2
Preferred stock dividends, net of tax benefit				(1.8)
Basic income available to common shareholders	$ 202.5	$ 157.7	$ 370.9	$ 320.4
Net income	$ 202.5	$ 157.7	$ 370.9	$ 322.2
Effect of dilutive securities:				
Compensation expense, net of tax benefit, arising from assumed conversion of preferred stock				(0.1)
Diluted income available to common shareholders	$ 202.5	$ 157.7	$ 370.9	$ 322.1
Weighted Average Shares Outstanding				
Basic weighted average shares outstanding	191.6	189.5	191.2	185.2
Effect of dilutive securities:				
Stock options	2.6	3.3	2.7	3.4
Convertible preferred stock				3.7
Diluted weighted average shares outstanding	194.2	192.8	193.9	192.3
Antidilutive Securities				
Options to purchase common shares	0.8	0.3	0.6	0.3

9. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six month period ended September 30, 2004 and the six month period ended March 31, 2005 were as follows:

(in millions)	Seating and Interiors N. America	Seating and Interiors Europe	Seating and Interiors Asia	Battery Group	Controls Group	Total

Balance as of March 31, 2004	$ 1,176.3	$ 1,021.4	$ 220.1	$ 311.8	$ 437.0	$ 3,166.6
Goodwill from business acquisitions				458.0		458.0
Currency translation	0.4	(1.0)	(4.8)	(4.7)	(0.8)	(10.9)
Other		4.3	(30.0)	(19.9)	(1.9)	(47.5)
Balance as of September 30, 2004	1,176.7	1,024.7	185.3	745.2	434.3	3,566.2
Goodwill from business acquisitions					9.0	9.0
Currency translation	0.4	59.6	13.5	13.4	14.1	101.0
Other				(2.0)	0.2	(1.8)
Balance as of March 31, 2005	$ 1,177.1	$ 1,084.3	$ 198.8	$ 756.6	$ 457.6	$ 3,674.4

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The Company s other intangible assets, primarily from business acquisitions, are valued based on independent appraisals and consisted of:

	March 31, 2005			September 30, 2004			March 31, 2004		
(in millions)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets									
Patented technology	$234.6	$ (94.9)	$139.7	$224.5	$ (85.0)	$139.5	$219.7	$ (77.4)	$142.3
Unpatented technology	32.6	(6.0)	26.6	31.7	(4.9)	26.8	31.8	(3.8)	28.0
Customer relationships	80.3	(6.8)	73.5	83.9	(5.6)	78.3	72.6	(4.2)	68.4
Miscellaneous	10.1	(7.8)	2.3	10.5	(7.3)	3.2	10.5	(6.7)	3.8
Total amortized intangible assets	357.6	(115.5)	242.1	350.6	(102.8)	247.8	334.6	(92.1)	242.5
Unamortized intangible assets									
Trademarks	38.4		38.4	37.1		37.1	12.4		12.4
Pension asset	6.2		6.2	6.0		6.0	8.9		8.9
Total unamortized intangible assets	44.6		44.6	43.1		43.1	21.3		21.3
Total intangible assets	$402.2	$ (115.5)	$286.7	$393.7	$ (102.8)	$290.9	$355.9	$ (92.1)	$263.8

Amortization of other intangible assets for the six month periods ended March 31, 2005 and 2004 was $12 million and $9 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates annual amortization of other intangible assets will average $21 million per year over the next five years.

10. Comprehensive Income

A summary of comprehensive income is shown below:

	Three Months Ended March 31,		Six Months Ended March 31,	
(in millions)	2005	2004	2005	2004
Net income	$ 202.5	$ 157.7	$ 370.9	$ 322.2
Realized and unrealized gains (losses) on derivatives	0.4	1.9	(4.3)	3.1
Foreign currency translation adjustments	(91.4)	35.4	107.9	183.0
Other comprehensive (loss) income	(91.0)	37.3	103.6	186.1

Comprehensive income	$ 111.5	$ 195.0	$ 474.5	$ 508.3

The lower foreign currency translation adjustments (CTA) for the three months ended March 31, 2005 was primarily due to the approximate 3% decrease in the euro compared to a flat euro for the same period a year ago. CTA for the six months ended March 31, 2005 was lower primarily due to the approximate 6% increase in the euro compared to an approximate 8% increase in the euro for the same period a year ago.

The Company has foreign currency-denominated debt obligations and cross-currency interest rate swaps which are designated as hedges of net investments in foreign subsidiaries. Gains and losses, net of tax, attributable to these hedges are deferred as CTA within the Accumulated other comprehensive income account. A net gain of approximately $12 million and a net loss of approximately $6 million were recorded

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

for the three month periods ending March 31, 2005 and 2004, respectively. Net losses of approximately $29 million and $45 million were recorded for the six month periods ending March 31, 2005 and 2004, respectively.

11. Segment Information (Restated)

In response to comments raised by the Staff of the Securities and Exchange Commission, the Company is revising its segment disclosure. Revising the segment disclosure also requires the Company to update additional information that is disclosed based on the Company s reportable segments in other notes to the Consolidated Financial Statements, primarily Note 9 Goodwill and Other Intangible Assets. In addition, Note 12 Income Taxes, Note 13 Restructuring Costs and Note 17 Contingencies, were amended to address additional comments from the Staff of the Securities and Exchange Commission.

The Company operates in three primary businesses, the Controls Group, the Seating & Interiors Group, and the Battery Group. The Controls Group provides facility systems and services including comfort, energy and security management for the non-residential buildings market. The Seating & Interiors Group designs and manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover vehicles. The Battery Group designs and manufactures automotive batteries for the replacement and original equipment markets.

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, (SFAS 131) establishes the standards for reporting information about operating segments in financial statements. In applying the criteria set forth in SFAS 131, the Company has determined that it operates in six operating segments, two within the Battery Group are aggregated under the accounting standard to arrive at the Company s five reportable segments for financial reporting purposes.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Management s evaluation of the performance of the Company s reportable segments excludes discontinued operations, significant restructuring costs and other significant non-recurring gains or losses. Financial information relating to the Company s reportable segments were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
(in millions)	2005	2004	2005	2004
Net Sales				
Controls Group	$ 1,432.5	$ 1,315.6	$ 2,809.8	$ 2,571.9
Seating & Interiors North America	2,137.0	2,023.8	4,194.5	4,125.7
Seating & Interiors Europe	2,282.4	1,993.2	4,433.7	3,776.7
Seating & Interiors Asia	367.9	272.6	679.4	514.8
Battery Group	679.6	516.7	1,399.8	1,105.5
Total	$ 6,899.4	$ 6,121.9	$ 13,517.2	$ 12,094.6
Operating Income				
Controls Group (1)	$ 50.8	$ 43.0	$ 86.2	$ 91.5
Seating & Interiors North America (2)	68.6	106.4	127.0	216.7
Seating & Interiors Europe (3)	58.9	17.9	84.2	13.6
Seating & Interiors Asia (4)	8.3	7.2	15.4	10.8
Battery Group (5)	66.3	45.7	159.4	116.5
Total	252.9	220.2	472.2	449.1
Restructuring costs	(210.0)	(82.4)	(210.0)	(82.4)
Japanese pension gain		84.4		84.4
Consolidated Operating Income	$ 42.9	$ 222.2	$ 262.2	$ 451.1

(1) Controls Group operating income excludes $51.3 and $13.3 million of restructuring costs for the three and six months ended March 31, 2005 and 2004, respectively.

(2) Seating & Interiors North

America operating income excludes $11.9 and $5.1 million of restructuring costs for the three and six months ended March 31, 2005 and 2004, respectively.

(3) Seating & Interiors Europe operating income excludes $129.6 and $51.1 million of restructuring costs for the three and six months ended March 31, 2005 and 2004, respectively.

(4) Seating & Interiors Asia operating income excludes $0.4 million of restructuring costs for the three and six months ended March 31, 2005 and a pension gain of $84.4 million for the three and six months ended March 31, 2004.

(5) Battery Group operating income excludes $16.8 and $12.9 million of

restructuring costs for the three and six months ended March 31, 2005 and 2004, respectively.

12. Income Taxes

The Company s estimated annualized base effective income tax rate for continuing and discontinued operations for the three months ended March 31, 2005, declined to 25.2% from 27.1% for the prior year period due to continuing global tax planning initiatives. The current quarter base effective tax rate benefited from a $69 million tax benefit due to a change in tax status of a German subsidiary, partially offset by an increase in the tax valuation allowance of $28 million related to the current period restructuring charges for which no tax benefit will be received in certain countries (primarily Germany and the United Kingdom) given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in that country. The Company s estimated base effective tax rate for the six months ended March 31, 2005, further benefited from an additional $11.5 million tax benefit due to a change

14

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

in tax status of a French subsidiary. The change in tax status resulted from a voluntary tax election that produced a deemed liquidation of the French and German subsidiaries for US federal income tax purposes. The US shareholder received a tax benefit for the loss from the decrease in value from the original tax basis of these investments. This election changed the tax status of the German and French entities from controlled foreign corporations (i.e. taxable entities) to branches (i.e. flow through entities similar to a partnership) for US federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes . The prior year six month period ended March 31, 2004 benefited from a $17 million favorable tax settlement related to prior periods.

The estimated annualized effective tax rate for income from discontinued operations was 39% and 35.4% for World Services and the engine electronics business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences. The Company s income taxes for the gain on the sale of discontinued operations resulted in an effective tax rate of 38.1%.

The Company s Federal income tax returns and certain foreign income tax returns for fiscal years 1997-2003 are currently under various stages of audit by the Internal Revenue Service (IRS) and respective foreign tax authorities. Although the outcome of tax audits is always uncertain, management believes that its annual tax provisions included amounts sufficient to pay assessments, if any, which may be proposed by the taxing authorities. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the IRS may differ materially from the amounts accrued for each year. Company management expects that final resolution of certain tax audits will occur over the next twelve months.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (Act). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign operations. The deduction is subject to a number of limitations and, as of today, uncertainty remains as to how to interpret numerous provisions in the Act. As such, the Company is not yet in a position to decide on whether, and to what extent, the Company might repatriate foreign earnings that have not yet been remitted to the U.S. The Act allows the Company to repatriate an amount up to $560 million, which represents the cumulative undistributed earnings of foreign subsidiaries subject to the Act. The respective tax liability if the $560 million was repatriated would be approximately $60 million. The Company expects to be in a position to finalize its assessment by September 2005.

13. Restructuring Costs

In the second quarter of fiscal year 2005, the Company executed a restructuring plan (2005 Plan) involving cost structure reduction actions and recorded a $210 million restructuring charge included in Restructuring costs in the Consolidated Statement of Income. These restructuring charges include workforce reductions of approximately 3,100 employees within the Seating & Interiors and the Battery Groups, and 800

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

employees in the Controls Group. The charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. In addition, the 2005 Plan includes eight plant closures within the Seating & Interiors and the Battery Groups, and four plant closures within the Controls Group. The write downs of the long-lived assets associated with the plant closures were determined using a discounted cash flow analysis. The Seating & Interiors and the Battery Groups actions are primarily concentrated in Europe, while the Controls Group restructuring actions involve activities in both North America and Europe. The Company expects to incur other related and ancillary costs associated with some of these restructuring initiatives. These costs are not expected to be material and will be expensed as incurred. The majority of the restructuring activities are expected to be completed within one year.
The Company recorded the restructuring charge as a result of management s ongoing review of the Company s cost structure, the sharp increase in commodity costs, and the current economic difficulties facing some of our most significant customers. Company management is continually analyzing our businesses for opportunities to consolidate current operations and to locate our facilities in low cost countries in close proximity to our customers. This ongoing analysis includes the review of our manufacturing, engineering and purchasing operations as well as our overall company footprint. As a result of the 2005 Plan, the Company anticipates annual savings of approximately $135 million beginning in fiscal year 2006.
The following table summarizes the Company s 2005 Plan reserve, included within Other current liabilities in the Consolidated Statement of Financial Position:

(in millions)	Original Reserve	Utilized Cash	Utilized Noncash	Balance at March 31, 2005
Employee severance and termination benefits	$ 139.3			$ 139.3
Write down of long-lived assets (1)	45.8		($45.8)	
Other	24.9			24.9
	$ 210.0		($45.8)	$ 164.2

(1) Write down of long-lived assets includes $36.6 million related to the Seating & Interiors Europe, $7.1 million related to the Battery Group, and $2.1 million related to the Controls Group.

Included within Other are exit costs related to terminating supply contracts associated with changes in the Company s manufacturing footprint and strategies, lease termination costs and other direct costs of the restructuring plan.

In the second quarter of fiscal year 2004, the Company executed a restructuring plan (2004 Plan) involving cost structure improvement actions and recorded an $82.4 million restructuring charge included in Restructuring costs in the Consolidated Statement of Income. These charges primarily related to workforce reductions of approximately 1,500 employees in the Seating & Interiors and Battery Groups and 470 employees in the Controls Group. In addition, the 2004 Plan called for four

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

plants within the Seating & Interiors Group to be consolidated. Through March 31, 2005, approximately 1,240 employees from the Seating & Interiors and Battery Groups and all impacted employees from the Controls Group have been separated from the Company. A significant portion of the Seating & Interiors and Battery Group actions were concentrated in Europe. The Controls Group restructuring actions involved activities in both North America and Europe. The remaining restructuring activities are expected to be completed during fiscal year 2005.

The following table summarizes the Company s 2004 Plan reserve, included within Other current liabilities in the Consolidated Statement of Financial Position:

(in millions)	Balance at September 30, 2004	Utilized Cash	Utilized Noncash	Balance at March 31, 2005
Employee severance and termination benefits	$ 41.8	($16.4)		$ 25.4
Currency translation	(0.4)		$ 0.5	0.1
	$ 41.4	($16.4)	$ 0.5	$ 25.5

14. Retirement Plans

The components of the Company s net periodic benefit costs associated with its defined benefit pension plans and other postretirement health and other benefits are as follows:

	Pension							
	U.S. Plans Three Months Ended March 31,		Non-U.S. Plans Three Months Ended March 31,		U.S. Plans Six Months Ended March 31,		Non-U.S. Plans Six Months Ended March 31,	
(in millions)	2005	2004	2005	2004	2005	2004	2005	2004
Service cost	$ 16.1	$ 14.3	$ 7.2	$ 7.0	$ 32.2	$ 28.6	$ 14.4	$ 13.7
Interest cost	22.3	20.5	9.8	9.9	44.6	41.0	19.6	19.7
Employee contributions			(0.8)	(1.1)			(1.6)	(2.1)
Expected return on plan assets	(26.0)	(26.0)	(7.5)	(6.7)	(52.0)	(52.0)	(15.0)	(13.1)
Amortization of transitional obligation	(0.5)	(0.7)			(1.0)	(1.4)		
Amortization of net actuarial loss	4.9	2.6	1.7	0.9	9.8	5.2	3.4	1.7
Amortization of prior service cost	0.3	0.3	(0.1)		0.6	0.6	(0.2)	
Recognition of unrealized loss associated with the transfer of the Japanese pension obligation				13.9				13.9
	$ 17.1	$ 11.0	$ 10.3	$ 23.9	$ 34.2	$ 22.0	$ 20.6	$ 33.8

Net periodic benefit cost

	Postretirement Health and Other Benefits			
	Three Months Ended March 31,		**Six Months Ended March 31,**	
(in millions)	**2005**	**2004**	**2005**	**2004**
Service cost	$ 1.4	$ 1.3	$ 2.8	$ 2.6
Interest cost	2.5	2.8	5.1	5.6
Amortization of net actuarial loss	0.2	0.3	0.4	0.6
Amortization of prior service cost	(0.6)	(0.6)	(1.2)	(1.2)
Net periodic benefit cost	$ 3.5	$ 3.8	$ 7.1	$ 7.6

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
15. Deconsolidation of a Joint Venture (Restated)

On April 1, 2005, the Company deconsolidated a North American Seating & Interiors joint venture as it was determined the Company no longer had effective control over the venture s operating activities. Subsequent to April 1, 2005, the Company determined that based on SFAS 94, Consolidation of All Majority-Owned Subsidiaries, the joint venture should not have been consolidated in prior periods. As such, the Company s financial statements have been restated to account for the joint venture on an equity basis in accordance with APB 18, The Equity Method of Accounting for Investments in Common Stock for all periods prior to April 1, 2005. Due to this deconsolidation, the Company has also revised the previously reported amounts in Note 2 Inventories, Note 5 Research and development, Note 9 Goodwill and other intangible assets, Note 11 Segment information and Note 12 Income taxes.

The deconsolidation of this joint venture had no impact on income from continuing operations, net income or earnings per share in the respective periods and its impact on the consolidated statement of cash flows was not significant. Revenues and expenses previously recorded in certain consolidated financial statement line items are now reported on a net basis as Equity income in the Consolidated Statement of Income and the Company s net investment in the joint venture is reported in the Investments in partially-owned affiliates line in the Consolidated Statement of Financial Position. The following table summarizes the impact of this restatement on key financial statement line items (the impact on other individual financial statement line items is not material):

	Three Months Ended March 31, 2005		**Three Months Ended March 31, 2004**		**Six Months Ended March 31, 2005**		**Six Months Ended March 31, 2004**	
(In millions)	**As Reported**	**Restated**	**As Reported**	**Restated**	**As Reported**	**Restated**	**As Reported**	**Restated**
Consolidated Statement of Income								
Net sales	$ 7,100.6	$ 6,899.4	$ 6,306.5	$ 6,121.9	$ 13,921.0	$ 13,517.2	$ 12,448.8	$ 12,094.6
Operating income	60.0	42.9	244.6	222.2	298.2	262.2	492.1	451.1
Equity income	12.5	18.4	16.3	23.0	28.3	39.7	34.1	46.1
Minority interests in net earnings of subsidiaries	12.1	6.0	18.7	11.8	33.1	20.8	34.2	21.8
Consolidated Statement of Financial Position								
Investments in partially-owned affiliates	278.2	423.4	450.6	576.8				
Minority interests in equity of subsidiaries	289.7	142.8	242.5	102.5				

16. Guarantor Financial Statements (Restated)

Subsequent to September 30, 2005, the Company identified intercompany subsidiary upstream guarantees, issued March 21, 2001, applicable to certain third-party debt of the Company. Based upon the nature of these guarantees, the Company has determined that condensed guarantor subsidiary financial statement information should have been disclosed in its previously filed interim and annual financial statements since the issuance of the guarantees. As a result, the Company has restated its fiscal 2005 and fiscal 2004 consolidated financial statements to include these required disclosures.

Certain of the Company s wholly-owned subsidiaries (the Guarantors) had unconditionally guaranteed (the guarantees), on a joint and several basis, any and all liabilities of Johnson Controls, Inc. (the Parent) for money borrowed, when due,

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

whether at stated maturity, by acceleration, or otherwise. The guarantees did not have a stated maturity; however, the guarantees were rescinded in November 2005 and replaced with alternative intercompany arrangements. The guarantees covered the majority of the Parent s short-term and long-term debt, as follows:

(In millions)	March 31, 2005	September 30, 2004	March 31, 2004
Short-term debt	$ 382.4	$ 813.3	$ 657.6
Less bank borrowings not subject to guarantees	(123.4)	(96.3)	(121.7)
Total short-term debt of Parent subject to guarantees	$ 259.0	$ 717.0	$ 535.9
Long-term debt	$ 1,883.5	$ 1,857.3	$ 1,921.0
Less debt not subject to guarantees:			
Industrial revenue bonds		(9.7)	(19.5)
Capital lease obligations	(107.5)	(89.0)	(91.5)
Euro denominated debt	(154.8)	(142.2)	(130.4)
Yen denominated debt	(0.9)		(0.9)
Other long-term debt	(47.1)	(39.9)	(48.5)
Total debt subject to guarantees	1,573.2	1,576.5	1,630.2
Less current portion of Parent subject to guarantees	(200.0)	(200.0)	
Total long-term debt of Parent subject to guarantees	$ 1,373.2	$ 1,376.5	$ 1,630.2

The Guarantors included Hoover Universal, Inc., Johnson Controls Battery Group, Inc., JC Interiors, LLC and Johnson Controls Beteiligungs GmbH. Pursuant to Rule 3-10 of Regulation S-X, in lieu of providing separate audited financial statements for each of the Guarantors, or the Guarantors as a group, the Company has disclosed the condensed supplemental consolidating financial information below.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

			March 31, 2005		
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents (1)	$ 23.6	($293.6)	$ 514.9	$	$ 244.9
Accounts receivable net	346.5	822.5	3,032.9		4,201.9
Costs and earnings in excess of billings on uncompleted contracts	139.2		181.0		320.2
Inventories	12.6	216.8	660.3		889.7
Other current assets	98.1	210.2	633.6		941.9
Current assets	620.0	955.9	5,022.7		6,598.6
Property, plant & equipment net	185.8	930.5	2,268.1		3,384.4
Goodwill net	71.6	1,087.5	2,515.3		3,674.4
Other intangible assets net	15.6	47.0	224.1		286.7
Investments in partially-owned affiliates	9.4	56.4	357.6		423.4
Investments in subsidiaries (2)	7,161.2	4,826.1	9,578.3	(21,565.6)	
Other noncurrent assets	201.8	124.0	521.5		847.3
Total assets	$ 8,265.4	$ 8,027.4	$ 20,487.6	($ 21,565.6)	$ 15,214.8
LIABILITIES AND SHAREHOLDERS EQUITY					
Short-term debt	$ 259.0	$	$ 123.4	$	$ 382.4
Current portion of long-term debt	200.0	1.3	17.6		218.9
Accounts payable	217.7	767.9	2,619.0		3,604.6
Accrued compensation and benefits	128.4	92.4	453.3		674.1
Accrued income taxes	(331.8)	29.1	302.7		
Billings in excess of costs and earnings on uncompleted contracts	126.1		107.1		233.2
Other current liabilities	96.4	152.8	818.1		1,067.3
Current liabilties	695.8	1,043.5	4,441.2		6,180.5
Long-term debt	1,373.2	41.6	249.8		1,664.6
Postretirement health and other benefits	65.9	86.0	1.7		153.6
Minority interests in equity of subsidiaries	(0.1)		142.9		142.8
Other noncurrent liabilities	439.0	(194.2)	1,136.9		1,381.7
Shareholders equity	5,691.6	7,050.5	14,515.1	(21,565.6)	5,691.6
Total liabilities and shareholders equity	$ 8,265.4	$ 8,027.4	$ 20,487.6	($ 21,565.6)	$ 15,214.8

(1) Negative cash balances at the Guarantors reflect the balance in a worldwide cash pooling arrangement.

(2) Includes investments in subsidiaries and net intercompany balances.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

	September 30, 2004				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents (1)	$ 375.9	($101.0)	($175.7)	$	$ 99.2
Accounts receivable net	345.6	738.1	2,732.2		3,815.9
Costs and earnings in excess of billings on uncompleted contracts	120.2		151.6		271.8
Inventories	9.0	249.4	599.9		858.3
Assets of discontinued operations			579.8		579.8
Other current assets	104.4	151.8	469.3		725.5
Current assets	955.1	1,038.3	4,357.1		6,350.5
Property, plant & equipment net	183.8	927.2	2,222.9		3,333.9
Goodwill net	158.2	1,079.6	2,328.4		3,566.2
Other intangible assets net	16.6	50.6	223.7		290.9
Investments in partially-owned affiliates	8.9	70.0	368.7		447.6
Investments in subsidiaries (2)	6,954.8	4,505.0	7,778.5	(19,238.3)	
Other noncurrent assets	198.3	84.1	486.9		769.3
Total assets	$ 8,475.7	$ 7,754.8	$ 17,766.2	($ 19,238.3)	$ 14,758.4
LIABILITIES AND SHAREHOLDERS EQUITY					
Short-term debt	$ 717.0	$	$ 96.3	$	$ 813.3
Current portion of long-term debt	200.0	10.8	15.9		226.7
Accounts payable	237.5	681.6	2,506.2		3,425.3
Accrued compensation and benefits	94.8	86.8	410.8		592.4
Accrued income taxes	(139.5)	(66.3)	254.4		48.6
Billings in excess of costs and earnings on uncompleted contracts	106.9		90.3		197.2
Liabilities of discontinued operations			228.5		228.5
Other current liabilities	102.5	177.7	608.6		888.8
Current liabilties	1,319.2	890.6	4,211.0		6,420.8
Long-term debt	1,376.5	26.8	227.3		1,630.6
Postretirement health and other benefits	81.0	78.4	4.7		164.1
Minority interests in equity of subsidiaries			121.5		121.5
Other noncurrent liabilities	492.7	(116.0)	838.4		1,215.1

Shareholders equity	5,206.3	6,875.0	12,363.3	(19,238.3)	5,206.3
Total liabilities and shareholders equity	$ 8,475.7	$ 7,754.8	$ 17,766.2	($ 19,238.3)	$ 14,758.4

(1) Negative cash balances at the Guarantors and Non-Guarantors reflect the balance in a worldwide cash pooling arrangement.

(2) Includes investments in subsidiaries and net intercompany balances.

21

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

			March 31, 2004		
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents (1)	($57.2)	$ 10.0	$ 217.0	$	$ 169.8
Accounts receivable net	321.4	698.3	2,439.7		3,459.4
Costs and earnings in excess of billings on uncompleted contracts	119.6		185.1		304.7
Inventories	11.9	246.6	525.2		783.7
Assets of discontinued operations			566.2		566.2
Other current assets	94.4	170.6	513.2		778.2
Current assets	490.1	1,125.5	4,446.4		6,062.0
Property, plant & equipment net	186.6	892.1	1,931.3		3,010.0
Goodwill net	112.2	1,079.6	1,974.8		3,166.6
Other intangible assets net	12.9	54.3	196.6		263.8
Investments in partially-owned affiliates	29.9	170.6	376.3		576.8
Investments in subsidiaries (2)	6,744.9	3,805.9	4,006.3	(14,557.1)	
Other noncurrent assets	217.1	75.4	492.1		784.6
Total assets	$ 7,793.7	$ 7,203.4	$ 13,423.8	($ 14,557.1)	$ 13,863.8
LIABILITIES AND SHAREHOLDERS EQUITY					
Short-term debt	$ 535.9	$	$ 121.7	$	$ 657.6
Current portion of long-term debt		20.8	11.3		32.1
Accounts payable	195.7	753.0	2,350.1		3,298.8
Accrued compensation and benefits	73.9	92.4	353.8		520.1
Accrued income taxes	(103.6)	(2.9)	106.5		
Billings in excess of costs and earnings on uncompleted contracts	114.5		90.7		205.2
Liabilities of discontinued operations			197.4		197.4
Other current liabilities	95.2	119.8	676.4		891.4
Current liabilties	911.6	983.1	3,907.9		5,802.6
Long-term debt	1,630.2	27.5	231.2		1,888.9
Postretirement health and other benefits	77.2	86.3	3.1		166.6
Minority interests in equity of subsidiaries		2.0	100.5		102.5
Other noncurrent liabilities	405.4	(203.2)	931.7		1,133.9

Shareholders equity	4,769.3	6,307.7	8,249.4	(14,557.1)	4,769.3
Total liabilities and shareholders equity	$ 7,793.7	$ 7,203.4	$ 13,423.8	($ 14,557.1)	$ 13,863.8

(1) Negative cash balances at the Parent reflect the balance in a worldwide cash pooling arrangement.

(2) Includes investments in subsidiaries and net intercompany balances.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

	Three Months Ended March 31, 2005				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$ 644.0	$ 1,605.2	$ 6,433.3	($ 1,783.1)	$ 6,899.4
Cost of sales	472.6	1,412.7	5,969.8	(1,783.1)	6,072.0
Gross profit	171.4	192.5	463.5		827.4
Selling, general and administrative expenses	189.3	96.2	289.0		574.5
Restructuring costs	15.1	11.4	183.5		210.0
Operating income	(33.0)	84.9	(9.0)		42.9
Interest income	0.2		2.5		2.7
Interest expense	(16.5)	(1.5)	(12.4)		(30.4)
Equity income		2.8	15.6		18.4
Miscellaneous net (1)	13.3	(95.8)	70.7		(11.8)
Other (expense) income	(3.0)	(94.5)	76.4		(21.1)
Income from continuing operations before income taxes, minority interests and equity in net earnings of subsidiaries	(36.0)	(9.6)	67.4		21.8
Income tax (benefit) provision	(99.7)	(2.4)	64.1		(38.0)
Minority interests in net earnings of subsidiaries			6.0		6.0
Equity in net earnings of subsidiaries	138.8	79.8		(218.6)	
Income from continuing operations	202.5	72.6	(2.7)	(218.6)	53.8
Income from discontinued operations, net of income taxes			3.9		3.9
Gain on sale of discontinued operations, net of income taxes.			144.8		144.8
Net income	$ 202.5	$ 72.6	$ 146.0	($ 218.6)	$ 202.5

(1) Includes intercompany charges between the Parent, Guarantors and Non-Guarantors.

	Three Months Ended March 31, 2004				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$ 610.2	$ 1,503.4	$ 5,139.4	($ 1,131.1)	$ 6,121.9
Cost of sales	461.0	1,256.9	4,746.3	(1,131.1)	5,333.1
Gross profit	149.2	246.5	393.1		788.8
Selling, general and administrative expenses	145.3	137.6	285.7		568.6
Restructuring costs	6.4	2.1	73.9		82.4
Japanese pension gain			(84.4)		(84.4)
Operating income	(2.5)	106.8	117.9		222.2
Interest income	0.9	0.1	2.6		3.6
Interest expense	(21.2)		(5.5)		(26.7)
Equity (loss) income		(2.2)	25.2		23.0
Miscellaneous net (1)	17.0	(269.4)	246.1		(6.3)
Other income (expense)	(3.3)	(271.5)	268.4		(6.4)
Income from continuing operations before income taxes, minority interests and equity in net earnings of subsidiaries	(5.8)	(164.7)	386.3		215.8
Income tax provision (benefit)	(5.1)	(55.5)	117.1		56.5
Minority interests in net earnings of subsidiaries			11.8		11.8
Equity in net earnings of subsidiaries	158.4	241.8		(400.2)	
Income from continuing operations	157.7	132.6	257.4	(400.2)	147.5
Income from discontinued operations, net of income taxes			10.2		10.2

Gain on sale of discontinued operations, net of income taxes.					
Net Income	$ 157.7	$ 132.6	$ 267.6	($ 400.2)	$ 157.7

(1) Includes intercompany charges between the Parent, Guarantors and Non-Guarantors.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

	Six Months Ended March 31, 2005				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$ 1,234.4	$ 3,210.6	$ 12,032.0	($ 2,959.8)	$ 13,517.2
Cost of sales	917.2	2,791.3	11,135.7	(2,959.8)	11,884.4
Gross profit	317.2	419.3	896.3		1,632.8
Selling, general and administrative expenses	346.1	216.7	597.8		1,160.6
Restructuring costs	15.1	11.4	183.5		210.0
Operating income	(44.0)	191.2	115.0		262.2
Interest income	0.3		6.5		6.8
Interest expense	(36.8)	(2.2)	(22.0)		(61.0)
Equity income	0.1	6.4	33.2		39.7
Miscellaneous net (1)	28.8	(171.5)	126.7		(16.0)
Other (expense) income	(7.6)	(167.3)	144.4		(30.5)
Income from continuing operations before income taxes, minority interests and equity in net earnings of subsidiaries	(51.6)	23.9	259.4		231.7
Income tax (benefit) provision	(121.1)	5.9	116.1		0.9
Minority interests in net earnings of subsidiaries			20.8		20.8
Equity in net earnings of subsidiaries	301.4	91.0		(392.4)	
Income from continuing operations	370.9	109.0	122.5	(392.4)	210.0
Income from discontinued operations, net of income taxes			16.1		16.1
Gain on sale of discontinued operations, net of income taxes.			144.8		144.8
Net Income	$ 370.9	$ 109.0	$ 283.4	($ 392.4)	$ 370.9

(1) Includes intercompany charges between the Parent, Guarantors and Non-Guarantors.

	Six Months Ended March 31, 2004				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$ 1,206.4	$ 3,242.1	$ 9,781.8	($ 2,135.7)	$ 12,094.6
Cost of sales	893.2	2,702.4	9,035.6	(2,135.7)	10,495.5
Gross profit	313.2	539.7	746.2		1,599.1
Selling, general and administrative expenses	304.0	267.8	578.2		1,150.0
Restructuring costs	6.4	2.1	73.9		82.4
Japanese pension gain			(84.4)		(84.4)
Operating income	2.8	269.8	178.5		451.1
Interest income	0.9	0.1	4.4		5.4
Interest expense	(45.0)		(8.8)		(53.8)
Equity (loss) income		(4.9)	51.0		46.1
Miscellaneous net (1)	24.5	(339.2)	283.4		(31.3)
Other (expense) income	(19.6)	(344.0)	330.0		(33.6)
Income from continuing operations before income taxes, minority interests and equity in net earnings of subsidiaries	(16.8)	(74.2)	508.5		417.5
Income tax (benefit) provision	(31.8)	(25.0)	149.5		92.7
Minority interests in net earnings of subsidiaries			21.8		21.8
Equity in net earnings of subsidiaries	307.2	254.7		(561.9)	
Income from continuing operations	322.2	205.5	337.2	(561.9)	303.0
Income from discontinued operations, net of income taxes			19.2		19.2
Gain on sale of discontinued operations, net of income taxes.					

Net Income	$ 322.2	$ 205.5	$ 356.4	($ 561.9)	$ 322.2

(1) Includes intercompany charges between the Parent, Guarantors and Non-Guarantors.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

	Three Months Ended March 31, 2005				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash provided (used) by operating activities of continuing operations	$ 40.1	($ 49.2)	$ 202.0	$	$ 192.9
Investing Activities:					
Capital expenditures	(10.1)	(55.5)	(76.9)		(142.5)
Sale of property, plant and equipment		0.1	3.3		3.4
Proceeds from sale of discontinued operations			687.2		687.2
Recoverable customer engineering expenditures			(8.7)		(8.7)
Changes in long-term investments	(2.8)		38.6		35.8
Cash (used) provided by investing activities	(12.9)	(55.4)	643.5		575.2
Financing Activities:					
(Decrease) increase in short-term debt net	(531.0)		8.3		(522.7)
Increase in long-term debt			10.1		10.1
Repayment on long-term debt	(12.0)		(9.6)		(21.6)
Change in intercompany accounts	229.6	31.4	(261.0)		
Payment of cash dividends	(92.1)				(92.1)
Other net	13.0		5.0		18.0
Cash (used) provided by financing activities	(392.5)	31.4	(247.2)		(608.3)
Cash used by discontinued operations			(22.8)		(22.8)
(Decrease) increase in cash and cash equivalents	($ 365.3)	($ 73.2)	$ 575.5	$	$ 137.0

	Three Months Ended March 31, 2004				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash provided (used) by operating activities of continuing operations	$ 101.1	($ 377.6)	$ 581.1	$	$ 304.6
Investing Activities:					
Capital expenditures	(12.9)	(65.2)	(119.9)		(198.0)

Sale of property, plant and equipment		2.2	7.4		9.6
Recoverable customer engineering expenditures			5.4		5.4
Changes in long-term investments	(2.1)	(2.4)	(2.7)		(7.2)
Cash used by investing activities	(15.0)	(65.4)	(109.8)		(190.2)
Financing Activities:					
(Decrease) increase in short-term debt net	(63.0)		1.5		(61.5)
Increase in long-term debt			67.1		67.1
Repayment on long-term debt	(63.2)	(2.3)	(41.2)		(106.7)
Change in intercompany accounts	69.8	358.7	(428.5)		
Payment of cash dividends	(79.9)				(79.9)
Other net	22.2		1.0		23.2
Cash (used) provided by financing activities	(114.1)	356.4	(400.1)		(157.8)
Cash provided by discontinued operations			0.2		0.2
(Decrease) increase in cash and cash equivalents	($ 28.0)	($ 86.6)	$ 71.4	$	($ 43.2)

25

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

	Six Months Ended March 31, 2005				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash provided by operating activities of continuing operations	$ 144.9	$ 217.4	$ 30.0	$	$ 392.3
Investing Activities:					
Capital expenditures	(17.3)	(96.6)	(168.7)		(282.6)
Sale of property, plant and equipment		0.1	7.5		7.6
Acquisition of businesses, net of cash acquired			(33.1)		(33.1)
Recoverable customer engineering expenditures			(12.0)		(12.0)
Proceeds from sale of discontinued operations			687.2		687.2
Changes in long-term investments	(0.5)		28.6		28.1
Cash (used) provided by investing activities	(17.8)	(96.5)	509.5		395.2
Financing Activities:					
(Decrease) increase in short-term debt net	(458.0)		23.8		(434.2)
Increase in long-term debt			13.5		13.5
Repayment on long-term debt	(72.4)	(9.5)	(16.4)		(98.3)
Change in intercompany accounts	106.7	(304.0)	197.3		
Payment of cash dividends	(95.7)				(95.7)
Other net	40.0		(9.9)		30.1
Cash (used) provided by financing activities	(479.4)	(313.5)	208.3		(584.6)
Cash used by discontinued operations			(57.2)		(57.2)
(Decrease) increase in cash and cash equivalents	($ 352.3)	($ 192.6)	$ 690.6	$	$ 145.7

	Six Months Ended March 31, 2004				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash (used) provided by operating activities of continuing operations	($ 247.1)	($ 187.8)	$ 884.9	$	$ 450.0

Investing Activities:					
Capital expenditures	(23.4)	(115.6)	(241.2)		(380.2)
Sale of property, plant and equipment		2.2	16.3		18.5
Acquisition of businesses, net of cash acquired			(36.6)		(36.6)
Recoverable customer engineering expenditures			(43.7)		(43.7)
Changes in long-term investments	(2.8)	(4.9)	5.0		(2.7)
Cash used by investing activities	(26.2)	(118.3)	(300.2)		(444.7)
Financing Activities:					
Increase in short-term debt net	472.2		43.2		515.4
Increase in long-term debt			117.0		117.0
Repayment on long-term debt	(464.7)	(2.3)	(63.6)		(530.6)
Change in intercompany accounts	223.7	319.8	(543.5)		
Payment of cash dividends	(85.3)				(85.3)
Other net	39.9		(1.9)		38.0
Cash provided (used) by financing activities	185.8	317.5	(448.8)		54.5
Cash provided by discontinued operations			26.1		26.1
(Decrease) increase in cash and cash equivalents	($ 87.5)	$ 11.4	$ 162.0	$	$ 85.9

17. Contingencies

The Company is involved in a number of proceedings relating to environmental matters. Although it is difficult to estimate the liability related to these environmental matters, the Company believes that these matters will not have a materially adverse effect upon its capital expenditures, earnings or competitive position. Costs related to such matters were not material to the periods presented. Additionally, the Company is involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management s opinion that none of these will have a materially adverse effect on the Company s financial position, results of operations or cash flows. Costs related to such matters were not material to the periods presented.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Johnson Controls, Inc.

We have reviewed the accompanying condensed consolidated statements of financial position of Johnson Controls, Inc. and its subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income and cash flows for each of the three- and six-month periods ended March 31, 2005 and 2004. These interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position as of September 30, 2004, and the related consolidated statements of income, shareholders equity, and cash flows for the year then ended (not presented herein), and in our report dated December 2, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of September 30, 2004, is fairly stated in all material respects in relation to the consolidated statement of financial position from which it has been derived.

As discussed in Notes 11, 15 and 16 to the condensed consolidated financial statements, the Company has restated its fiscal 2005 and 2004 consolidated interim financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
May 6, 2005, except for Note 11, as to which the date is August 9, 2005, and
Notes 15 and 16, as to which the date is December 22, 2005

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On April 1, 2005, the Company deconsolidated a North American Seating & Interiors joint venture as it was determined the Company no longer had effective control over the venture s operating activities. Subsequent to April 1, 2005, the Company determined that based on SFAS 94, Consolidation of All Majority-Owned Subsidiaries, the joint venture should not have been consolidated in prior periods. As such, the Company s financial statements have been restated to account for the joint venture on an equity basis in accordance with APB 18, The Equity Method of Accounting for Investments in Common Stock for all periods prior to April 1, 2005. The deconsolidation had no impact on previously reported income from continuing operations, net income or earnings per share (see Note 15 to the Consolidated Financial Statements).

Subsequent to September 30, 2005, the Company identified intercompany subsidiary upstream guarantees, issued March 21, 2001, applicable to certain third-party debt of the Company. Based upon the nature of these guarantees, the Company has determined that condensed guarantor subsidiary financial statement information should have been disclosed in its previously filed interim and annual financial statements since the issuance of the guarantees. As a result, the Company has restated its fiscal 2005 and fiscal 2004 consolidated financial statements to include these required disclosures. As the restatement relates only to the disclosure of guarantor financial information, the previously reported amounts in the Consolidated Statement of Income and the Consolidated Statement of Financial Position remain unchanged (see Note 16 to the Consolidated Financial Statements).

Prior year results of operations, financial position and cash flows noted in the following discussion have been restated to reflect the current year s presentation of the engine electronics business and World Services as discontinued operations and the North American Seating & Interiors joint venture as an investment in a partially-owned affiliate.

The following management s discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the September 30, 2004 consolidated financial statements and notes thereto, along with the MD&A included in the Company s Amended 2004 Annual Report on Form 10-K/A.

28

Table of Contents

Comparison of Operating Results for the Three Month Periods ended March 31, 2005 and 2004

Sales

The Company s net sales for the three month periods ended March 31, 2005 and 2004 were as follows:

(in millions)		2005	Restated 2004	% change
Controls Group		$ 1,432.5	$ 1,315.6	9%
Seating & Interiors	North America	2,137.0	2,023.8	6%
Seating & Interiors	Europe	2,282.4	1,993.2	15%
Seating & Interiors	Asia	367.9	272.6	35%
Battery Group		679.6	516.7	32%
Total		$ 6,899.4	$ 6,121.9	13%

Consolidated net sales in the second quarter of fiscal 2005 were $6.9 billion, increasing 13% above the prior year period sales of $6.1 billion. Growth was achieved by all segments.

Controls Group

Controls Group sales in the current period were $1.4 billion, 9% above the $1.3 billion in the prior year period. Excluding the impact of currency translation, segment sales were up 6% over the prior year.

North American sales were 10% above the prior year. Sales of installed systems contracts grew 17%, with strong growth in both the systems renovation and new construction businesses. Service sales were up 4%, due to strong growth in technical services volumes and a slight increase in facility management sales.

European sales were 8% higher than the prior year with increases in the systems renovation and service and facility management businesses, but continued to remain relatively flat in the new construction market. Excluding the positive effects of currency translation, segment sales in Europe were approximately 3% higher than the prior year.

Sales in the rest of the world, which represent less than 10% of segment revenue, were slightly above the prior year, primarily attributable to increases in Japan and the favorable impact of currency translation.

Seating & Interiors North America

Seating & Interiors North America sales in the second quarter of fiscal 2005 increased 6% to $2.1 billion in the current year versus the prior year period of $2.0 billion due primarily to new business awards and a favorable mix of vehicle sales compared to the estimated 1% decrease in the industry s domestic vehicle production.

Seating & Interiors Europe

Seating & Interiors Europe sales in the second quarter of fiscal 2005 increased 15% to $2.3 billion in the current year compared to the prior year of $2.0 billion. Excluding the impact of currency translation, European sales were up 9%. The growth was primarily attributable to new contract awards in the current year. This increase was favorable to the estimated slight decrease in the European industry vehicle production.

Table of Contents

Seating & Interiors   Asia

Seating & Interiors   Asia sales increased 35% in comparison to the prior year, due to higher volumes across all regions and the favorable impact of currency translation. Excluding the impact of currency translation, Asian sales were up 32% versus the prior year.

Battery Group

Automotive battery sales increased 32% compared to the second quarter of the prior year primarily due to the acquisition of the remaining interest in the Company s Latin American battery joint venture in the fourth quarter of fiscal 2004, which added sales of $74 million. Excluding the impact of the acquisition and the positive effect of foreign currency exchange, automotive battery sales increased 15% primarily due to the pass through of higher lead costs and higher unit volumes.

Operating Income

The Company s operating income for the three month periods ended March 31, 2005 and 2004 was as follows:

		Restated	%
(in millions)	**2005**	**2004**	**change**
Controls Group (1)	$ 50.8	$ 43.0	18%
Seating & Interiors North America (2)	68.6	106.4	-36%
Seating & Interiors Europe (3)	58.9	17.9	229%
Seating & Interiors Asia (4)	8.3	7.2	15%
Battery Group (5)	66.3	45.7	45%
Total	$ 252.9	$ 220.2	15%
Restructuring costs	(210.0)	(82.4)	
Japanese pension gain		84.4	
Consolidated operating income	$ 42.9	$ 222.2	

(1) Controls Group operating income excludes $51.3 and $13.3 million of restructuring costs for the three months ended March 31, 2005 and 2004, respectively.

(2) Seating & Interiors   North America operating income excludes $11.9 and

$5.1 million of restructuring costs for the three months ended March 31, 2005 and 2004, respectively.

(3) Seating & Interiors Europe operating income excludes $129.6 and $51.1 million of restructuring costs for the three months ended March 31, 2005 and 2004, respectively.

(4) Seating & Interiors Asia operating income excludes $0.4 million of restructuring costs for the three months ended March 31, 2005 and a pension gain of $84.4 million for the three months ended March 31, 2004.

(5) Battery Group operating income excludes $16.8 and $12.9 million of restructuring costs for the three months ended March 31, 2005 and 2004,

respectively.

Consolidated operating income for the first quarter of fiscal 2005 was $43 million, down from the prior year s operating income of $222 million. Impacting the current quarter s operating income was $210 million of restructuring costs. The prior year period included $82 million of restructuring costs and an $84 million Japanese pension gain. Excluding the restructuring costs and the Japanese pension gain, consolidated operating income was $253 million up 15% from the prior year amount of $220 million.

Controls Group

Controls Group operating income in the second quarter increased $8 million (excluding $51 million of restructuring costs) from the prior period operating income of $43 million (excluding $13 million in restructuring costs). The increase was due to higher gross profits in both North America and Europe, which were partially offset by higher SG&A expenses. North American gross profits increased primarily due to strong growth in higher margin systems and services business compared to the growth in lower margin facility management sales. Both North America and European results benefited from operational and process efficiency improvements within the branch network. SG&A increased primarily due to an acquisition that added $8 million of expense to the period.

Seating & Interiors North America

Seating & Interiors North America operating income was $69 million (excluding $12 million of restructuring costs), compared to the prior period operating income of $106 million (excluding $5 million of restructuring costs). The decrease was primarily due to continued price reductions, material cost increases, and unfavorable mix compared to industry production, partially offset by operational cost savings and lower engineering expenses.

Lower sales mix of mature vehicle programs and sales price reductions under long term agreements with the Company s customers exceeded cost reductions and operational efficiencies by $30 million in the period. The lower sales mix of mature vehicle programs negatively impacted results as these sales typically deliver more favorable margins due to operational efficiencies and cost reductions that are implemented throughout the vehicle life cycle. In contrast, new vehicle programs require significant engineering and start up costs thereby reducing margins at the onset of the program. Annual price reduction renewal negotiations during the period yielded terms consistent with prior agreements. It should be noted that price reduction commitments are often made in the context of broader customer negotiations on several factors, including volume, potential new business opportunities and geographic expansion.

The segment experienced commodity cost increases, primarily steel, resin and chemicals, of approximately $31 million compared to the prior year. The Company continues to address the rising commodity costs in the region through negotiations with both its customers and suppliers.

The Company expects the commodity cost pressures to continue in the third and fourth quarter of 2005, with increased pressure from Tier 2 and Tier 3 suppliers partially offset by the Company s direct purchase initiatives. The Company intends to modify the duration and terms of its direct buy material contracts to address potential future increases.

SG&A expenses decreased $24 million in the period primarily due to lower net engineering expenses.

Seating & Interiors Europe

Seating & Interiors Europe operating income was $59 million (excluding $130 million of restructuring costs), compared to the prior period operating income of $18 million (excluding $51 million of restructuring costs). The $41 million increase ($36 million increase excluding the positive effects of foreign currency translation) was due to increased volumes of higher margin interior systems and improved launch execution and reduced engineering expense, partially offset by price reductions and commodity cost increases. The current period also benefited from a lower number of new vehicle launches compared to the prior year.

Implemented cost reductions, operational efficiencies and the higher sales mix of mature vehicle programs exceeded incremental sales price reductions by approximately $30 million in the period. Annual sales price reduction renewal negotiations during the period yielded terms consistent with prior agreements.

The incremental effect of commodity costs totaled approximately $7 million in the period. The increases were less than those incurred in North America due to the timing of contract renewals and variations in certain terms of the agreements and higher commercial recoveries. SG&A expenses decreased approximately $13 million compared to the prior period primarily due to lower net engineering expenses.

Seating & Interiors Asia

Seating & Interiors Asia operating income in the second quarter of fiscal 2005 increased $1 million to $8 million from $7 million for the prior period. The increase was primarily due to higher sales mix of mature vehicle programs and currency translation.

Battery Group

Automotive battery operating income increased $21 million to $66 million, a 45% increase compared to the second quarter of the prior year. The increase was primarily due to the acquisition of the remaining interest in the Company s Latin American battery joint venture in the fourth quarter of fiscal 2004, which added $7 million of operating income in the period, offset by higher commodity costs of approximately $7 million. Higher unit volume and the benefits of European integration activities also contributed to the increased operating income experienced by the segment.

Restructuring Costs

In the second quarter of fiscal year 2005, the Company executed a restructuring plan (2005 Plan) involving cost structure reduction actions and recorded a $210 million restructuring charge included in Restructuring costs in the Consolidated Statement of Income. These restructuring charges include workforce reductions of approximately 3,100 employees within the Seating & Interiors and the Battery Groups, and 800 employees in the Controls Group. The charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. In addition, the 2005 Plan includes eight plant closures within the Seating & Interiors and the Battery Groups, and four plant closures within the Controls Group. The write downs of the long-lived assets associated with the plant closures were determined using a discounted cash flow analysis. The Seating & Interiors and the Battery Groups actions are primarily concentrated in Europe, while the Controls Group restructuring actions involve activities in both North America and Europe. The Company expects to incur other related and ancillary costs associated with some of these restructuring initiatives. These costs are not expected to be material and will be expensed as incurred. The majority of the restructuring activities are expected to be completed within one year.

The Company recorded the restructuring charge as a result of management s ongoing review of the Company s cost structure, the sharp increase in commodity costs, and the current economic difficulties facing some of our most significant customers. Company management is continually analyzing our businesses for opportunities to consolidate current operations and to locate our facilities in low cost countries in close proximity to our customers. This ongoing analysis includes the review of our manufacturing, engineering and purchasing operations as well as our overall company footprint. As a result of the 2005 Plan, the Company anticipates annual savings of approximately $135 million beginning in fiscal year 2006.

The following table summarizes the Company s 2005 Plan reserve, included within Other current liabilities in the Consolidated Statement of Financial Position:

(in millions)	Original Reserve	Utilized Cash	Utilized Noncash	Balance at March 31, 2005
Employee severance and termination benefits	$ 139.3			$ 139.3
Write down of long-lived assets (1)	45.8		($45.8)	
Other	24.9			24.9
	$ 210.0		($45.8)	$ 164.2

(1) Write down of long-lived assets includes $36.6 million related to the Seating & Interiors Europe, $7.1 million related to the Battery Group, and $2.1 million related to the Controls Group.

Included within Other are exit costs related to terminating supply contracts associated with changes in the Company s manufacturing footprint and strategies, lease termination costs and other direct costs of the restructuring plan.

In the second quarter of fiscal year 2004, the Company executed a restructuring plan (2004 Plan) involving cost structure improvement actions and recorded an $82.4 million restructuring charge included in Restructuring costs in the Consolidated Statement of Income. These charges primarily related to workforce reductions of approximately 1,500 employees in the Seating & Interiors and Battery Groups and 470 employees in the Controls Group. In addition, the 2004 Plan called for four plants within the Seating & Interiors Group to be consolidated. Through March 31, 2005, approximately 1,240 employees from the Seating & Interiors and Battery Groups and all impacted employees from the Controls Group have been separated from the Company. A significant portion of the Seating & Interiors and Battery Group actions were concentrated in Europe. The Controls Group restructuring actions involved activities in both North America and Europe. Approximately $10 million of the reserve was utilized in the current quarter ended March 31, 2005. The remaining restructuring activities are expected to be completed during fiscal year 2005.

Other Income/Expense

Net interest expense increased from the prior year period primarily as a result of higher interest rates in the current period. Equity income for the three months ended March 31, 2005 decreased approximately $5 million compared to the prior year period primarily due to lower earnings at certain Seating & Interiors joint ventures in China. Miscellaneous net expense in the current quarter increased approximately $6 million from the prior year period as a result of foreign currency losses in the current period compared to foreign currency gains in the prior period.

Table of Contents

Provision for Income Taxes

The Company s estimated base effective income tax rate for continuing and discontinued operations for the three month period ended March 31, 2005 declined to 25.2% from 27.1% for the prior year due to continuing global tax planning initiatives. The Company benefited in the current quarter from a $69 million tax benefit due to a change in tax status of a German subsidiary, partially offset by an increase in the tax valuation allowance of $28 million related to the current period restructuring charges for which no tax benefit will be received in certain countries (primarily German and the United Kingdom) given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in that country. The change in tax status resulted from a voluntary tax election that produced a deemed liquidation of the German subsidiary for US federal income tax purposes. The US shareholder received a tax benefit for the loss from the decrease in value from the original tax basis of this investment. This election changed the tax status of the German entity from a controlled foreign corporation (i.e. taxable entity) to a branch (i.e. flow through entity similar to a partnership) for US federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes . The estimated annualized effective tax rate for income from discontinued operations was 39% and 35.4% for World Services and the engine electronics business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences.

Minority Interests in Net Earnings of Subsidiaries

Minority interests in net earnings of subsidiaries in the current quarter decreased from the prior year. The decrease was primarily due to lower earnings at certain Seating & Interiors joint ventures in North America.

Income from Continuing Operations

Income from continuing operations for the three months ended March 31, 2005 was $54 million, $94 million lower than prior period s $148 million. The decreased earnings were a result of the current year restructuring charge of $210 million compared to the prior year charge of $82 million and an $84 million Japanese pension gain in the prior year period, partially offset by higher gross profit and an income tax benefit in the current year compared to a provision in the prior year period. The income tax benefit includes a $69 million tax benefit associated with a change in tax status of a foreign subsidiary in the current period, partially offset by an increase in the tax valuation allowance of $28 million related to the current period restructuring charges for which no tax benefit will be received in certain countries. Diluted earnings per share from continuing operations for the three months ended March 31, 2005 were $0.28, compared to the prior year period of $0.77.

Table of Contents

Comparison of Operating Results for the Six Month Periods ended March 31, 2005 and March 31, 2004

Sales

The Company s consolidated net sales for the six month periods ended March 31, 2005 and 2004 were as follows:

(in millions)		2005	Restated 2004	% change
Controls Group		$ 2,809.8	$ 2,571.9	9%
Seating & Interiors	North America	4,194.5	4,125.7	2%
Seating & Interiors	Europe	4,433.7	3,776.7	17%
Seating & Interiors	Asia	679.4	514.8	32%
Battery Group		1,399.8	1,105.5	27%
Total		$ 13,517.2	$ 12,094.6	12%

Consolidated net sales in the first six months of the current year reached $13.5 billion, 12% higher than the prior year s $12.1 billion. Excluding the impact of currency translation, current year sales grew 9% over the prior year.

Controls Group

Sales in the first six months of fiscal 2005 reached $2.8 billion, a 9% increase over the prior year s $2.6 billion. Sales grew 4% excluding the positive impact of currency translation and acquisitions.

Sales in North America were up 9% over the first half of the prior year. Sales growth was achieved across all major lines of business. Sales of installed systems increased 10%, reflecting growth in both the new construction and existing buildings markets. Sales of technical and facility management services were up 8%, primarily due to growth in technical services.

Excluding the positive effects of currency translation, sales in Europe increased 4% in comparison to the prior year period. The increase is primarily attributed to strength in the existing building and facility management markets.

Sales in the rest of the world, which represent less than 10% of segment revenue, were above the prior year, primarily attributable to higher volumes in Japan and the favorable impact of currency translation.

Seating & Interiors North America

Seating & Interiors North America sales increased 2% above the prior year, despite the decline in domestic vehicle production in the period. The slight increase reflects new business and involvement in platforms where demand year-over-year was above the industry average.

Seating & Interiors Europe

Seating & Interiors Europe sales increased 17% above the prior year amount of $3.8 billion. Excluding the impact of currency translation, European segment sales for the six months ended March 31, 2005 grew 10% above the prior year period. Despite the slight

Table of Contents

decrease in the European light vehicle production during the first half of fiscal 2005, sales increased 10% due primarily to new contract awards.

Seating & Interiors Asia

Seating & Interiors Asia sales increased 32% percent to $679 million from the prior years $515 million. The increase in sales is due to higher volumes across all major regions and the favorable impact of foreign currency translation.

Battery Group

Battery Group sales increased 27% to $1.4 billion from the prior years $1.1 billion. North American battery sales increased 34% from the prior year period, reflecting the acquisition of the Company s remaining interest in the Latin American battery joint venture in the fourth quarter of fiscal year 2004. Excluding the effect of the acquisition that added approximately $150 million, battery sales increased 13% compared to the prior year period primarily due to the pass through of higher lead costs and higher unit volumes. European battery sales, excluding the favorable impact of foreign currency translation, increased 9% over the prior year period primarily due the pass through of higher lead costs and higher unit volumes.

Operating Income

The Company s operating income for the six month periods ended March 31, 2005 and 2004 was as follows:

		Restated	%
(in millions)	**2005**	**2004**	**change**
Controls Group (1)	$ 86.2	$ 91.5	-6%
Seating & Interiors North America (2)	127.0	216.7	-41%
Seating & Interiors Europe (3)	84.2	13.6	*
Seating & Interiors Asia (4)	15.4	10.8	43%
Battery Group (5)	159.4	116.5	37%
Total	$ 472.2	$ 449.1	5%
Restructuring costs	(210.0)	(82.4)	
Japanese pension gain		84.4	
Consolidated operating income	$ 262.2	$ 451.1	

* Metric not meaningful.

(1) Controls Group operating income excludes $51.3 and $13.3 million of restructuring costs for the six months ended March 31, 2005 and 2004, respectively.

(2)

Seating & Interiors North America operating income excludes $11.9 and $5.1 million of restructuring costs for the six months ended March 31, 2005 and 2004, respectively.

(3) Seating & Interiors Europe operating income excludes $129.6 and $51.1 million of restructuring costs for the six months ended March 31, 2005 and 2004, respectively.

(4) Seating & Interiors Asia operating income excludes $0.4 million of restructuring costs for the six months ended March 31, 2005 and a pension gain of $84.4 million for the six months ended March 31, 2004.

(5) Battery Group operating income excludes $16.8 and $12.9 million of restructuring costs for the six

months ended
March 31, 2005
and 2004,
respectively.

Consolidated operating income for the first six months of fiscal 2005 was $262 million, down from the prior year s $451 million. Included in the current six month period s operating income was $210 million of restructuring costs, compared to the prior year six month period which included $82 million of restructuring costs and an $84 million Japanese pension gain.

Controls Group

Controls Group operating income was $86 million (excluding $51 million of restructuring costs) for the first six months of fiscal 2005, down $6 million from the prior period operating income of $92 million (excluding $13 million of restructuring costs). The decrease was due to North American SG&A expenses, which were partially offset by higher gross profits in both North America and Europe. North American gross profit increased primarily due to strong growth in systems and technical services business compared to the growth in lower margin facility management sales and realization of benefits from operational and process efficiency improvements within the branch network.

European gross profits were also higher due to cost reductions and higher facility management sales. Higher SG&A expenses in North America were primarily due to an acquisition in the first quarter of fiscal year 2005, which added approximately $16 million in expense.

Seating & Interiors North America

Seating & Interiors North America operating income was $127 million (excluding $12 million of restructuring costs), compared to the prior period operating income of $217 million (excluding $5 million of restructuring costs). The decrease of $90 million was primarily due to continued price reductions, material cost increases, and unfavorable mix compared to industry production, partially offset by operational cost savings and lower engineering expenses.

Lower sales mix of mature vehicle programs and sales price reductions under long term agreements with the Company s customers exceeded cost reductions and operational efficiencies by $74 million in the period. The lower sales mix of mature vehicle programs negatively impacted results as these sales typically deliver more favorable margins due to operational efficiencies and cost reductions that are implemented throughout the vehicle life cycle. In contrast, new vehicle programs require significant engineering and start up costs thereby reducing margins at the onset of the program. Annual price reduction renewal negotiations during the period yielded terms consistent with prior agreements. It should be noted that price reduction commitments are often made in the context of broader customer negotiations on several factors, including volume, potential new business opportunities and geographic expansion.

The segment experienced commodity cost increases, primarily steel, resin and chemicals, of approximately $67 million compared to the prior year. The Company continues to address the rising commodity costs in the region through negotiations with both its customers and suppliers. In order to address future increases, the Company intends to modify the duration and terms of its direct material buy contracts. The Company expects these commodity cost pressures on gross profit to continue in the third and fourth quarter of fiscal 2005, with increased pressure from Tier 2 and Tier 3 suppliers partially offset by the Company s direct purchase initiatives.

SG&A expenses decreased $51 million in the period primarily due to lower net engineering expenses.

Table of Contents

Seating & Interiors Europe

Seating & Interiors Europe operating income was $84 million (excluding $130 million of restructuring costs), compared to the prior period operating income of $14 million (excluding $51 million of restructuring costs) due to increased volumes of higher margin interior systems, improved launch efficiencies, fewer overall launches, and operational improvements that more than offset the price and commodity pressures. Excluding the positive effects of currency translation, operating income increased $64 million.

Implemented cost reductions, operational efficiencies and the higher sales mix of mature vehicle programs exceeded the incremental sales price reductions by approximately $48 million in the period. Annual sales price reduction renewal negotiations during the period yielded terms consistent with prior agreements.

The incremental effect of commodity costs totaled approximately $11 million in the period. The increases were less than those incurred in North America due to the timing of the contract renewals and variations in certain terms of the agreements. SG&A expenses declined approximately $27 million primarily due to lower net engineering expenses.

Seating & Interiors Asia

Seating & Interiors Asia operating income increased 43 percent in comparison to the prior year, due to higher volumes across all regions and the favorable impact of currency translation.

Battery Group

Automotive battery operating income increased 37 percent compared to the second quarter of the prior year primarily due to the acquisition of the remaining interest in the Company s Latin American battery joint venture in the fourth quarter of fiscal 2004, which added $17 million, partially offset by higher commodity costs of approximately $5 million. Higher unit volume and the benefits of European integration activities also contributed to the increased operating income experienced by the segment.

Other Income/Expense

Net interest expense increased from the prior year six month period primarily as a result of higher interest rates in the current period. Equity income for the six months ended March 31, 2005 decreased approximately $6 million compared to the prior year period primarily due to lower earnings at certain Seating & Interiors joint ventures in China, partially offset by higher earnings at certain Seating & Interiors joint ventures in North America. Miscellaneous net expense in the current six month period decreased approximately $15 million from the prior year period. The decrease primarily reflects lower non-recurring litigation expense, lower foreign currency losses and gains on the disposition of assets in the current period compared to losses in the prior year period.

Provision for Income Taxes

The Company s estimated base effective income tax rate for continuing and discontinued operations for the six month period ended March 31, 2005 declined to 25.2%, from 27.1% for the prior year period due to continuing global tax planning initiatives. The Company benefited in the current six month period from an $80 million tax benefit due to a changes in the tax status of a German and a French subsidiary, partially offset by an increase in the tax valuation allowance of $28 million related to the current period restructuring charges for which no tax benefit will be received in certain countries (primarily Germany and the United Kingdom) given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in that country. The change in tax status resulted from a voluntary tax election that produced a deemed liquidation of the French and German subsidiaries for US federal income tax purposes. The US shareholder received a tax benefit for the loss from the decrease in value from the original tax basis of these investments. This election changed the tax status of the German and French entities from controlled foreign corporations (i.e. taxable entities) to branches (i.e. flow through entities similar to a partnership) for US federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes . The prior year six month period benefited from a $17 million favorable tax settlement.

The Company used an effective rate for income from discontinued operations for all periods of 39% and 35.4% for World Services and the engine electronics business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences.

Minority Interests in Net Earnings of Subsidiaries

Minority interests in net earnings of subsidiaries in the first six months of fiscal year 2005 decreased slightly from the prior year period. The slight decrease was primarily due to lower earnings at certain Seating & Interiors joint ventures in North America, partially offset by higher earnings at certain Seating & Interiors joint ventures in Asia. Management has not changed its full-year estimate for minority interests in net earnings of subsidiaries of approximately $80 to $90 million, excluding the impact of the joint venture deconsolidation.

Income from Continuing Operations

Income from continuing operations for the six months ended March 31, 2005 was $210 million, a decrease of $93 million compared to the prior year s $303 million. The decreased earnings were a result of the current year restructuring charge of $210 million compared to the prior year charge of $82 million, an $84 million Japanese pension gain in the prior year period and slightly higher SG&A expenses, partially offset by higher gross profit and a lower provision for income taxes. The income tax provision included an $80 million tax benefit due to changes in the tax status of two foreign subsidiaries, partially offset by an increase the tax valuation allowance of $28 million related to the current period restructuring charges for which no tax benefit will be received in certain countries. Diluted earnings per share from continuing operations for the six months ended March 31, 2005 were $1.08, compared to $1.57 in the prior year period.

Full Year Outlook

The Company has increased its full year guidance for consolidated sales growth, adjusted its guidance for operating margin and confirmed its guidance for operating income and income from continuing operations. The guidance focuses on the performance of ongoing operations of the business, and therefore excludes special items such as restructuring costs, gains from business divestitures, the 2005 tax credit and the 2004 Japanese pension gain. Management expects consolidated sales growth to increase 10 to 12% for both the Automotive Group (which includes Seating & Interiors and Battery Group) and the

Table of Contents

Controls Group, compared to previously issued guidance of 8 to 10%. For the Automotive Group, operating margin is expected to be flat compared to previously issued guidance of improving slightly due to pricing pressures, higher commodity costs and vehicle production uncertainties. These uncertainties could cause the Company s actual results to differ materially from the forecasted amounts. For the Controls Group, operating margin is expected to be flat compared to previously issued guidance of declining moderately due to higher than expected system sales.
Management s estimate for operating income remains unchanged and is projected to increase 10 to 12%. Income from continuing operations is expected to increase more than operating income, consistent with previously issued guidance.
Orders for control systems in the first six months of fiscal year 2005 were above the prior year in both the domestic and European markets. Strong domestic market sectors for new construction included health care, office and industrial, while state and local government continued to show strength in the systems renovation market. European operations showed growth in the construction and services businesses.
The Controls Group backlog relates to its installed systems and technical service activity, accounted for using the percentage-of-completion method. At March 31, 2005, the unearned backlog to be executed within the next year was $2.0 billion, 7% above the prior year level of $1.8 billion.

Comparison of Financial Condition

Working Capital and Cash Flow

Working capital, excluding cash and debt, of $0.8 billion at March 31, 2005 was $0.1 billion lower than at fiscal year-end and comparable to one year ago. The decrease from year-end was due to higher other current liabilities, accounts payable and the disposition of the net assets of the discontinued operations, partially offset by higher accounts receivable and other current assets. Working capital was flat compared to one year ago based on higher accounts receivable and other current assets, which were completely offset by the disposition of the net assets of the discontinued operations, higher accounts payable and higher other current liabilities.
The Company s days sales in accounts receivable for the three months ended March 31, 2005 was 54, consistent with the period ended September 30, 2004, and an increase compared to the period ended March 31, 2004. The increase from the prior year period primarily relates to the $219 million decrease in factored foreign currency trade account receivables in foreign countries.
The Company s inventory turnover ratio for the three months ended March 31, 2005, was 21, an increase compared to the turnover ratio of 19 for the period ended September 30, 2004, and consistent with the ratio for the period ended March 31, 2004. The increase from fiscal 2004 year end primarily relates to the acquisition of the Latin American battery joint venture.
Cash provided by operating activities of continuing operations was $193 million and $392 million for the three and six month period ended March 31, 2005, respectively. In comparison to the three and six month periods in the prior year, the cash provided by operating activities decreased $112 million and $58 million, respectively. The decrease

Table of Contents

primarily relates to the decrease in factored foreign currency trade account receivables in foreign countries.

Capital Expenditures

Capital spending for property, plant and equipment for the three month period ended March 31, 2005 was $143 million, down $56 million from the comparable prior year period. For the six month period ended March 31, 2005, capital spending was $283 million, down $98 million from the same period in the prior year. The majority of the current year spending was attributable to Seating & Interiors. Management has confirmed its estimate for fiscal 2005 capital expenditures of $725 to $775 million, excluding the impact of the joint venture deconsolidation.

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company has certain subsidiaries, mainly located in Germany, Italy, Mexico, United Kingdom, Japan and Brazil, which have generated operating losses and, in certain circumstances, have limited loss carryforward periods. As a result, the Company has recorded valuation allowances against tax assets for certain of these subsidiaries. The Company s long-lived asset impairment analyses indicate that assets of these countries are not impaired based on undiscounted cash flows. At March 31, 2005, the Company does not have any material assets whose recovery is at risk.

Capitalization

Total capitalization of $8.0 billion at March 31, 2005 included short-term debt of $0.4 billion, long-term debt (including the current portion) of $1.9 billion and shareholders equity of $5.7 billion. The Company s total capitalization at September 30, 2004 and March 31, 2004 was $7.9 billion and $7.3 billion, respectively. Total debt as a percentage of total capitalization at March 31, 2005 was 28.5%, compared with 33.9% at fiscal year-end and 35.1% one year ago.

The Company is in compliance with all covenants and other requirements set forth in its credit agreements and indentures. The Company believes its capital resources and liquidity position at March 31, 2005 are adequate to meet projected needs. Requirements for working capital, capital expenditures, dividends, debt maturities and any potential acquisitions in the remainder fiscal 2005 will continue to be funded from operations, supplemented by short and long-term borrowings, if required.

Acquisitions and Dispositions

In February 2005, the Company completed the sale of its engine electronics business to Valeo for approximately 323 million, or about $427 million. This non-core business was acquired in fiscal 2002 from Sagem SA. The sale of the engine electronics business resulted in a gain of approximately $90 million ($57 million after tax), net of related costs.

In March 2005, the Company completed the sale of its Johnson Controls World Services, Inc. subsidiary (World Services) to IAP Worldwide Services, Inc. for approximately $268

Table of Contents

million, of which $260 million was received in the current period. The sale of World Services resulted in a gain of approximately $144 million ($88 million after tax), net of related costs and subject to certain adjustments.

On March 22, 2005, the Company announced that it had signed a non-binding letter of intent to acquire Delphi Corporation s global automotive battery business for approximately $213 million, subject to adjustments. The acquisition is expected to close, subject to regulatory approvals, in the second half of fiscal year 2005.

Financial Instruments

The Company selectively uses equity swaps to reduce market risk associated with its stock-based compensation plans, such as its deferred compensation plans and stock appreciation rights. In March 2004, the Company entered into an equity swap agreement. In connection with the swap agreement, a third party may purchase shares of the Company s stock in the market or in privately negotiated transactions up to an amount equal to $135 million in aggregate. The swap agreement s impact on the Company s earnings for the three months ended March 31, 2005 was not material.

Off-Balance Sheet Arrangements

In the ordinary course of business, the Company utilizes accounts receivable factoring arrangements in countries where programs of this type are typical. Under these arrangements, the Company may sell certain of its trade accounts receivable to financial institutions. The arrangements, in virtually all cases, do not contain recourse provisions against the Company for its customers failure to pay. The Company sold approximately $55 million and $274 million of foreign currency trade accounts receivable as of March 31, 2005 and 2004, respectively.

Recent Accounting Pronouncements

During December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. Stock-based payments include stock option grants and certain transactions under other Company stock plans. The Company grants options to purchase common stock to some of its employees and directors under various plans at prices equal to the market value of the stock on the dates the options were granted. In April 2005, the Securities and Exchange Commission amended the effective date of SFAS 123R to the first interim period of the first fiscal year beginning after June 15, 2005. The Company is currently evaluating the impact that the adoption of SFAS 123R will have on its consolidated financial position, results of operations and cash flows.

Cautionary Statements for Forward-Looking Information

The Company has made forward-looking statements in this document pertaining to its financial results for fiscal 2005 that are based on preliminary data and are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future risks and may include words such as believes, expects, outlook, forecasts or similar expressions. For those statements, the Company cautions that numerous important factors, such as automotive vehicle production levels and schedules, the ability to increase prices due to higher raw material costs, the strength of the U.S. or other economies, currency exchange rates, cancellation of commercial contracts, as well as those factors discussed in the company s Form 8-K filing (dated October 26, 2004), could affect the Company s actual results and could cause its actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

Other Financial Information

The interim financial information included in this 10-Q/A Report has not been audited by PricewaterhouseCoopers LLP (PwC). In reviewing such information, PwC has applied limited procedures in accordance with professional standards for reviews of interim financial information. Accordingly, you should restrict your reliance on their reports on such information. PwC is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the interim financial information because such reports do not constitute reports or parts of the registration statements prepared or certified by PwC within the meaning of Sections 7 and 11 of the Securities Act of 1933.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For the three month period ended March 31, 2005, the Company did not experience any adverse changes in market risk exposures that materially affect the quantitative and qualitative disclosures presented in the Company s Amended Annual Report on Form 10-K/A for the year ended September 30, 2004.

ITEM 4. CONTROLS AND PROCEDURES

Restatement

On July 18, 2005, in response to a comment raised by the Staff of the Securities and Exchange Commission, the Audit Committee of the Board of Directors and management of the Company concluded that the Company s financial statements for the years ended September 30, 2004, 2003 and 2002 and as of and for the three month periods ended December 31, 2004 and 2003, as of and for the three and six month periods ended March 31, 2005 and 2004 and as of and for the three and nine month periods ended June 30, 2004, should be restated and such financial statements should no longer be relied upon. This restatement (Amendment No. 1 filed on August 9, 2005) revised the segment information included in previously filed financial statements, including Note 9 Goodwill and Other Intangible Assets in this Form 10-Q/A. As the restatement only related to the disclosure of the Company s segment information, previously reported net sales, operating income, net income and earnings per share were unchanged.

On November 15, 2005, the Audit Committee of the Board of Directors and management of the Company concluded that the Company s financial statements for the years ended September 30, 2004 and 2003, and as of and for the three month periods ended December 31, 2004 and 2003, as of and for the three and six month periods ended March 31, 2005 and 2004, and as of and for the three and nine month periods ended June 30, 2005 and June 30, 2004, should be restated and such financial statements should no longer be relied upon. The restatement of the Company s financial statements is in response to a comment raised by the Staff of the Securities and Exchange Commission regarding the Company s historical consolidation of a North American Seating & interiors joint venture which was deconsolidated by the Company on April 1, 2005. The restatement revised the Company s financial statements to deconsolidate the joint venture in accordance with SFAS 94, Consolidation of All Majority-Owned Subsidiaries, and account for the joint venture s operating results on an equity basis of accounting in accordance with APB 18, The Equity Method of Accounting for Investments in Common Stock for all periods prior to April 1, 2005. The restatement results in changes to certain financial statement line items as reported in the previously filed financial statements. Specifically, revenues and expenses previously recorded in certain consolidated financial statement line items are now reported on a net basis as Equity income in the Consolidated Statement of Income and the Company s net investment in the joint venture is reported in the Investments in partially-owned affiliates line in the Consolidated Statement of Financial Position.

In addition to the joint venture deconsolidation, the Company will restate their fiscal 2004 and fiscal 2003 annual consolidated financial statements and their fiscal 2005 and fiscal 2004 interim consolidated financial statements for purposes of providing financial statement footnote disclosure related to intercompany subsidiary upstream guarantees applicable to certain third-party debt of the Company. The restatement will provide guarantor subsidiary financial information disclosures in the footnotes to the previously filed financial statements in accordance with Rule 3-10 of Regulation S-X.

This restatement (Amendment No. 2 filed on December 22, 2005) also caused the Company to restate certain previously reported footnotes that were impacted as a result of the North American joint venture deconsolidation. This includes Note 2 Inventories, Note 5 Research and Development, Note 9 Goodwill and Other Intangible Assets, Note 11 Segment Information and Note 12 Income Taxes. This restatement (Amendment No. 2 filed on December 22, 2005) did not impact previously reported income from continuing operations, net income or earnings per share and its impact on the Consolidated Statement of Cash Flows was not significant.

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of March 31, 2005. Because of the material weaknesses described below, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were not effective as of March 31, 2005. In light of the material weaknesses, the Company performed additional analysis and other post-closing procedures in connection with the preparation of its consolidated financial statements in accordance with generally accepted accounting principles. Accordingly, the Company believes that the financial statements included in this quarterly filing on Form 10-Q/A fairly present, in all material respects, the Company s financial position, results of operations and cash flows for the periods presented.

A material weakness is a control deficiency or combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. The following material weaknesses were identified in the Company s assessment of the effectiveness of disclosure controls and procedures as of March 31, 2005:

Ineffective controls over the accounting for segments in accordance with SFAS 131 Disclosure About Segments of an Enterprise and Related Information . Specifically, the Company s controls were ineffective in ensuring that the Company s segment disclosures were identified and reported in accordance with SFAS 131. This control deficiency resulted in the restatement of the Company s consolidated financial statements for the years ended September 30, 2004, 2003 and 2002 and as of and for the three month periods ended December 31, 2004 and 2003 and March 31, 2005 and 2004 and June 30, 2004 and for the six month periods ended March 31, 2005 and 2004 and the nine month period ended June 30, 2004. In addition, this control deficiency could result in a material misstatement of segment disclosures that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has concluded that this deficiency constitutes a material weakness.

Ineffective controls over the accounting for joint venture investments in accordance with SFAS 94, Consolidation of All Majority-Owned Subsidiaries and APB 18, The Equity Method of Accounting for Investments in Common Stock. Specifically, the Company s controls over the reporting of certain non-majority owned affiliate investments did not prevent or detect the inappropriate consolidation of that investment. This control deficiency resulted in the restatement of the Company s fiscal 2004 and fiscal 2003 annual consolidated financial statements and our fiscal 2005 and fiscal 2004 interim consolidated financial statements. In addition, this control deficiency could result in a material misstatement of accounts and disclosures that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has concluded that this deficiency constitutes a material weakness.

Ineffective controls over the identification and disclosure of required guarantor subsidiary financial statement information in the Company s consolidated financial statements as required by Rule 3-10 of Regulation S-X. Specifically, the Company did not have effective controls, including the communication between the Company s Treasury Department and Accounting Department, to identify the required financial statement disclosures to be included in the Company s consolidated financial statements resulting from subsidiary guarantees applicable to certain third-party debt of the Company. This control deficiency resulted in the restatement of the Company s fiscal 2004 and fiscal 2003 annual consolidated financial statements and our fiscal 2005 and fiscal 2004 interim consolidated financial statements. In addition, this control deficiency could result in inaccurate or incomplete guarantor subsidiary financial statement disclosures that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has concluded that this deficiency constitutes a material weakness.

As a result of these material weaknesses, the Company concluded that our disclosure controls and procedures were not effective as of March 31, 2005.

Remediation of Material Weakness in Internal Control

The remedial actions taken by the Company are as follows:

Key personnel involved in the financial reporting process have enhanced the controls by which the SFAS 131 authoritative guidance is monitored and applied on a regular basis. In addition, the Company will now require the Company s Disclosure Committee to review its segment reporting on a quarterly basis and the Company has revised its monthly reporting package used by the Chief Operating Decision Maker.

The Company expanded its review and approval procedures at the Business Unit and Corporate level related to joint venture agreements using a newly developed checklist and now requires CFO and Controller review and approval of any situation where the Company is not consolidating a joint venture in which it has an equity interest greater than 50% or where the Company is consolidating a joint venture in which it has an equity interest of 50% or less. In addition, the Company has established formal quarterly review requirements related to the identification of any ownership, business or operational responsibility changes at its joint ventures and related accounting assessments and enhanced global training regarding joint venture accounting and the related authoritative guidance.

The Company rescinded all intercompany upstream guarantees and replaced them with alternative intercompany arrangements in November 2005. Accordingly, future disclosure of this information will no longer be required. To the extent new intercompany guarantees are required in the future, the Company s Treasury Department will ensure that all intercompany guarantees are maintained in its central repository of external guarantees and reviewed on a quarterly basis using a newly developed checklist. In addition, the Company s Corporate Accounting Department will review the central repository of guarantees in conjunction with its preparation and filing of the Company s quarterly reports on Form 10-Q and annual reports on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no significant changes in the Company s internal control over financial reporting during the quarter ended March 31, 2005, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no significant changes in status since the last Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company entered into an Equity Swap Agreement, dated as of March 18, 2004 (the Swap Agreement), with Citibank, N.A. (Citibank). The Company selectively uses equity swaps to reduce market risk associated with its Company stock-based compensation plans, such as its deferred compensation plans and stock appreciation rights. These equity compensation liabilities increase as the Company s stock price increases and decrease as the Company s stock price decreases. In contrast, the value of

the Swap Agreement moves in the opposite direction of these liabilities, allowing the Company to fix a portion of the liabilities at a stated amount.
Citibank has advised the Company that, in connection with the Swap Agreement, Citibank may purchase shares of the Company s stock in the market or in privately negotiated transactions up to an amount equal to $135 million in aggregate market value at any given time. The Company disclaims that Citibank is an affiliated purchaser of the Company as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act or that Citibank is purchasing any shares for the Company. Although the Swap Agreement has a stated expiration date, the Company s intention is to continually renew the Swap Agreement with Citibank s consent.
The following table presents information pursuant to Item 703(a) of Regulation S-K regarding the repurchase of the Company s common stock by the Company and purchases of the Company s common stock by Citibank in connection with the Swap Agreement during the three months ended March 31, 2005. The Swap Agreement s impact on the Company s earnings for the three months ended March 31, 2005 was not material. The repurchases of the Company s common stock by the Company relate solely to stock option and restricted stock transactions that are treated as involving repurchases of Company common stock for purposes of this disclosure.

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of the Publicly Announced Program**	**Approximate Dollar Value of Shares that May Yet be Purchased under the Program(1)**
1/1/05 1/31/05				
Purchases by Company	587	$60.15		
Purchases by Citibank				$34,428,000
Total	587	$60.15		$34,428,000
2/1/05 2/28/05				
Purchases by Company				
Purchases by Citibank				$34,530,000
Total				$34,530,000
3/1/05 3/31/05				
Purchases by Company				
Purchases by Citibank				$40,208,000
Total				$40,208,000

(1) The dollar amounts in this column relate solely to the approximate dollar value of shares that may be purchased under the Swap Agreement as of the end of the period in question.

ITEM 4. RESULTS OF VOTES OF SECURITY HOLDERS

Reference is made to Item 4 of the Company s Quarterly Report on Form 10-Q/A for the quarter ended December 31, 2004 for a description of the results of votes of security holders at the Annual Meeting of Shareholders held January 26, 2005.

Table of Contents

ITEM 6. EXHIBITS

Reference is made to the separate exhibit index contained on page 50 filed herewith.

Table of Contents

SIGNATURES

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

JOHNSON CONTROLS, INC.

Date: December 22, 2005	By: /s/ R. Bruce McDonald
	R. Bruce McDonald Vice President and Chief Financial Officer

49

Table of Contents

JOHNSON CONTROLS, INC.
INDEX TO EXHIBITS

Exhibit No.	Description
10.S	Letter agreement dated November 29, 2004, amending Giovanni Fiori s Executive Employment Agreement, relating to the Johnson Controls, Inc. Executive Survivor Benefits Plan (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2001).*
10.T	Stock Purchase Agreement, as amended through February 11, 2005, between Johnson Controls, Inc. and IAP Worldwide Services, Inc.*
10.U	Share Purchase Agreement, dated January 10, 2005, between Johnson Controls, Inc. and Valeo.*
12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges for the Six Months Ended March 31, 2005.
15	Letter of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, dated December 22, 2005, relating to Financial Information.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Exhibits were filed with the Form 10-Q as originally filed on May 6, 2005.