

JOHNSON CONTROLS INC

Form 10-Q/A

December 22, 2005

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

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

**For the quarterly period ended December 31, 2004**

**OR**

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

**For the transition period from \_\_\_\_\_ to**

**Commission File Number 1-5097  
JOHNSON CONTROLS, INC.**

(Exact name of registrant as specified in its charter)

Wisconsin (State of Incorporation) 39-0380010 (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  No

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

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

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 December 31, 2004 |
|----------------------------------|----------------------------------|
| Common Stock \$.04 1/6 Par Value | 191,174,330                      |

**JOHNSON CONTROLS, INC.**  
**FORM 10-Q/A**  
**December 31, 2004**  
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**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 month period ended December 31, 2004 (the 2005 First Quarter Form 10-Q ), which was originally filed with the Securities and Exchange Commission on January 31, 2005, and amended on August 9, 2005 (the 2005 First 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 8 Goodwill and Other Intangible Assets, Note 10 Segment Information, Note 11 Income Taxes and Note 14 Research and Development. 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 First Quarter Form 10-Q/A, as amended, in its entirety, but does not modify or update the disclosure in the 2005 First 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 January 31, 2005.

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****JOHNSON CONTROLS, INC.****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(in millions; unaudited)

|   | December<br>31,<br>2004 | Restated<br>September<br>30,<br>2004 | December<br>31,<br>2003 |
|---|-------------------------|--------------------------------------|-------------------------|
| <b>ASSETS</b>   |                         |                                      |                         |
| Cash and cash equivalents   | \$ 107.9                | \$ 99.2                              | \$ 213.0                |
| Accounts receivable net   | 3,872.1                 | 3,897.5                              | 3,288.4                 |
| Costs and earnings in excess of billings on uncompleted contracts | 362.0                   | 328.5                                | 318.7                   |
| Inventories   | 914.9                   | 859.7                                | 781.1                   |
| Assets of discontinued operations                                 | 426.4                   | 394.4                                | 367.0                   |
| Other current assets  | 851.2                   | 730.9                                | 758.1                   |
| Current assets  | 6,534.5                 | 6,310.2                              | 5,726.3                 |
| Property, plant and equipment net                                 | 3,487.3                 | 3,343.7                              | 2,964.7                 |
| Goodwill net  | 3,743.8                 | 3,596.6                              | 3,131.2                 |
| Other intangible assets net                                       | 299.0                   | 290.9                                | 267.6                   |
| Investments in partially-owned affiliates                         | 464.6                   | 447.7                                | 545.2                   |
| Other noncurrent assets   | 825.6                   | 769.3                                | 754.5                   |
| Total assets  | \$ 15,354.8             | \$ 14,758.4                          | \$ 13,389.5             |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                        |                         |                                      |                         |
| Short-term debt   | \$ 901.9                | \$ 813.3                             | \$ 717.6                |
| Current portion of long-term debt                                 | 217.4                   | 226.7                                | 130.7                   |
| Accounts payable  | 3,391.0                 | 3,481.3                              | 3,033.5                 |
| Accrued compensation and benefits                                 | 592.6                   | 625.4                                | 461.9                   |
| Accrued income taxes  | 15.0                    | 48.8                                 | 94.4                    |
| Billings in excess of costs and earnings on uncompleted contracts | 218.8                   | 197.2                                | 204.4                   |
| Liabilities of discontinued operations                            | 119.8                   | 128.1                                | 97.0                    |
| Other current liabilities   | 999.9                   | 898.4                                | 842.8                   |
| Current liabilities   | 6,456.4                 | 6,419.2                              | 5,582.3                 |
| Long-term debt  | 1,668.5                 | 1,630.6                              | 1,830.6                 |
| Postretirement health and other benefits                          | 163.6                   | 164.1                                | 167.1                   |
| Minority interests in equity of subsidiaries                      | 143.9                   | 123.1                                | 96.9                    |
| Other noncurrent liabilities                                      | 1,340.8                 | 1,215.1                              | 1,131.0                 |
| Shareholders equity   | 5,581.6                 | 5,206.3                              | 4,581.6                 |

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|  |             |             |             |
|--|-------------|-------------|-------------|
| Total liabilities and shareholders' equity | \$ 15,354.8 | \$ 14,758.4 | \$ 13,389.5 |
|--|-------------|-------------|-------------|

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

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

|  | Three Months<br>Ended December 31,<br>Restated |            |
|--|--|------------|
|  | 2004   | 2003       |
| Net sales  |  |            |
| Products and systems*  | \$ 5,813.8                                     | \$ 5,259.2 |
| Services*  | 959.1  | 864.1      |
|  | 6,772.9  | 6,123.3    |
| Cost of sales  |  |            |
| Products and systems   | 5,150.8  | 4,582.0    |
| Services   | 805.1  | 720.6      |
|  | 5,955.9  | 5,302.6    |
| Gross profit   | 817.0  | 820.7      |
| Selling, general and administrative expenses                                 | 590.5  | 585.8      |
| Operating income   | 226.5  | 234.9      |
| Interest income  | 4.1  | 1.8        |
| Interest expense   | (30.6)   | (27.1)     |
| Equity income  | 21.5   | 23.1       |
| Miscellaneous net  | (4.2)  | (24.9)     |
| Other income (expense)   | (9.2)  | (27.1)     |
| Income from continuing operations before income taxes and minority interests | 217.3  | 207.8      |
| Provision for income taxes   | 41.7   | 38.6       |
| Minority interests in net earnings of subsidiaries                           | 15.1   | 10.0       |
| Income from continuing operations  | 160.5  | 159.2      |
| Income from discontinued operations, net of income taxes                     | 7.9  | 5.3        |
| Net income   | \$ 168.4                                       | \$ 164.5   |

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|   |          |          |
|---|----------|----------|
| Earnings available for common shareholders    | \$ 168.4 | \$ 162.7 |
| Earnings per share from continuing operations |          |          |
| Basic   | \$ 0.84  | \$ 0.87  |
| Diluted                                       | \$ 0.83  | \$ 0.83  |
| Earnings per share                            |          |          |
| Basic   | \$ 0.88  | \$ 0.90  |
| Diluted                                       | \$ 0.87  | \$ 0.86  |

\* 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.



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

|   | Three Months<br>Ended December 31,<br>Restated |          |
|---|--|----------|
|   | 2004   | 2003     |
| <b>Operating Activities</b>   |  |          |
| Income from continuing operations   | \$ 160.5                                       | \$ 159.2 |
| Adjustments to reconcile income from continuing operations to cash provided by operating activities |  |          |
| Depreciation  | 152.5  | 135.1    |
| Amortization of intangibles   | 5.7  | 4.9      |
| Equity in earnings of partially-owned affiliates, net of dividends received                         | (21.1)   | (2.5)    |
| Minority interests in net earnings of subsidiaries  | 15.1   | 10.0     |
| Deferred income taxes   | (0.4)  | 7.2      |
| Other   | (1.1)  | 2.7      |
| Changes in working capital, excluding acquisition of businesses                                     |  |          |
| Receivables   | 209.4  | 198.8    |
| Inventories   | (6.9)  | 18.6     |
| Other current assets  | (59.1)   | 12.6     |
| Accounts payable and accrued liabilities  | (305.0)  | (450.8)  |
| Accrued income taxes  | 9.8  | 36.8     |
| Billings in excess of costs and earnings on uncompleted contracts                                   | 15.1   | 13.6     |
| Cash provided by operating activities of continuing operations                                      | 174.5  | 146.2    |
| Cash (used) provided by operating activities of discontinued operations                             | (5.7)  | 31.4     |
| Cash provided by operating activities   | 168.8  | 177.6    |
| <b>Investing Activities</b>   |  |          |
| Capital expenditures  | (141.2)  | (182.5)  |
| Sale of property, plant and equipment   | 4.2  | 8.9      |
| Acquisition of businesses, net of cash acquired   | (33.1)   | (36.6)   |
| Recoverable customer engineering expenditures   | (8.6)  | (49.1)   |
| Changes in long-term investments  | (2.1)  | 4.5      |
| Net investing activities of discontinued operations   | (3.0)  | (6.0)    |
| Cash used by investing activities   | (183.8)  | (260.8)  |
| <b>Financing Activities</b>   |  |          |
| Increase in short-term debt net   | 79.8   | 602.3    |
| Increase in long-term debt  | 3.4  | 49.9     |
| Repayment of long-term debt   | (76.7)   | (423.9)  |

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|   |               |                 |
|---|---------------|-----------------|
| Payment of cash dividends                           | (3.6)         | (5.4)           |
| Other   | 12.1          | 14.8            |
| Net financing activities of discontinued operations | 8.7           | (25.4)          |
| Cash provided by financing activities               | 23.7          | 212.3           |
| <b>Increase in cash and cash equivalents</b>        | <b>\$ 8.7</b> | <b>\$ 129.1</b> |

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

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**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-month period ended December 31, 2004 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 year'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)              | December<br>31,<br>2004 | September<br>30,<br>2004 | December<br>31,<br>2003 |
|----------------------------|-------------------------|--------------------------|-------------------------|
| Raw materials and supplies | \$ 470.1                | \$ 462.3                 | \$ 436.6                |
| Work-in-process            | 137.5                   | 136.7                    | 108.4                   |
| Finished goods             | 335.2                   | 288.5                    | 262.7                   |
| FIFO inventories           | 942.8                   | 887.5                    | 807.7                   |
| LIFO reserve               | (27.9)                  | (27.8)                   | (26.6)                  |
| Inventories                | \$ 914.9                | \$ 859.7                 | \$ 781.1                |

**3. Discontinued Operations**

On January 10, 2005, the Company announced that it intends to sell its engine electronics business to Valeo for approximately \$330 million, or approximately \$437 million. The transaction, which is subject to regulatory approvals, is expected to be completed in the second quarter of fiscal 2005. This non-core business, which was a part of the Sagem SA automotive electronics business that was acquired in fiscal 2002, is reported as discontinued operations in the Consolidated Financial Statements. Under the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the income statement components of the discontinued operations will be aggregated and presented on a single line in the Consolidated Statement of Income through the date of sale.

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The following table summarizes the revenues and expenses of the discontinued operations:

| (in millions)                                 | Three Months<br>Ended December 31, |         |
|---|------------------------------------|---------|
|   | 2004                               | 2003    |
| Net sales                                     | \$ 118.8                           | \$ 91.2 |
| Cost of sales                                 | 99.8                               | 75.5    |
| Gross profit                                  | 19.0                               | 15.7    |
| Selling, general and administrative expenses  | 6.8                                | 7.4     |
| Operating income                              | 12.2                               | 8.3     |
| Provision for income taxes                    | 4.3                                | 3.0     |
| Net income                                    | \$ 7.9                             | \$ 5.3  |
| Earnings per share of discontinued operations |                                    |         |
| Basic   | \$ 0.04                            | \$ 0.03 |
| Diluted                                       | \$ 0.04                            | \$ 0.03 |

The Consolidated Statement of Financial Position at December 31, 2004 includes assets of discontinued operations of \$426.4 million, consisting of goodwill (\$157.2 million), accounts receivable (\$100.0 million), property, plant and equipment net (\$60.7 million), other intangible assets net (\$59.5 million) and other miscellaneous assets (\$49.0 million). Liabilities of discontinued operations at December 31, 2004 totaled \$119.8 million, consisting of accounts payable (\$89.6 million), accrued compensation (\$23.6 million) and other miscellaneous liabilities (\$6.6 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 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.

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The changes in the carrying amount of total product warranty liability for the three-month period ended December 31, 2004 were as follows:

(in millions)

|  |             |
|--|-------------|
| Balance as of September 30, 2004   | \$ 69.8     |
| Accruals for warranties issued during the period                             | 10.2        |
| Accruals related to pre-existing warranties (including changes in estimates) | (0.6)       |
| Settlements made (in cash or in kind) during the period                      | (10.9)      |
| Currency translation   | 2.6         |
| <br>Balance as of December 31, 2004  | <br>\$ 71.1 |

**5. 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-month period ended December 31, 2004 represents a pro rata portion of the fiscal 2005, 2004 and 2003 grants which are earned over a three-year vesting period.

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:

| (in millions)   | Three Months<br>Ended December 31, |              |
|---|------------------------------------|--------------|
|   | 2004                               | 2003         |
| Net income, as reported   | \$ 168.4                           | \$ 164.5     |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects                                  | 3.4                                | 3.6          |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (4.7)                              | (5.5)        |
| <br>Pro forma net income  | <br>\$ 167.1                       | <br>\$ 162.6 |
| <br>Earnings per share  |                                    |              |
| Basic as reported   | \$ 0.88                            | \$ 0.90      |
| Basic pro forma   | \$ 0.88                            | \$ 0.89      |
| <br>Diluted as reported   | <br>\$ 0.87                        | <br>\$ 0.86  |
| Diluted pro forma   | \$ 0.86                            | \$ 0.85      |

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

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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. SFAS 123R is effective for all interim or annual periods 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.

**6. 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.

**7. Earnings Per Share**

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

| (in millions)  | Three Months<br>Ended December 31, |          |
|--|------------------------------------|----------|
|  | 2004                               | 2003     |
| <b><u>Income Available to Common Shareholders</u></b>  |                                    |          |
| Income from continuing operations  | \$ 160.5                           | \$ 159.2 |
| Preferred stock dividends, net of tax benefit  |                                    | (1.8)    |
| Basic income available to common shareholders  | \$ 160.5                           | \$ 157.4 |
| Income from continuing operations  | \$ 160.5                           | \$ 159.2 |
| 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  | \$ 160.5                           | \$ 159.1 |
| <b><u>Weighted Average Shares Outstanding</u></b>  |                                    |          |
| Basic weighted average shares outstanding  | 190.7                              | 181.0    |
| Effect of dilutive securities:   |                                    |          |
| Stock options  | 2.9                                | 3.3      |

|   |    |       |       |
|---|----|-------|-------|
| Convertible preferred stock                 |    |       | 7.5   |
| Diluted weighted average shares outstanding |    | 193.6 | 191.8 |
| <u>Antidilutive Securities</u>              |    |       |       |
| Options to purchase common shares           |    | 0.4   | 0.1   |
|   | 10 |       |       |

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The changes in the carrying amount of goodwill for the nine-month period ended September 30, 2004 and the three-month period ended December 31, 2004 were as follows:

| (in millions)                       | Controls Group | Seating and Interiors - North America | Seating and Interiors - Europe | Seating and Interiors - Asia | Battery Group | Total      |
|-------------------------------------|----------------|---------------------------------------|--------------------------------|------------------------------|---------------|------------|
| Balance as of December 31, 2003     | \$ 453.3       | \$ 1,176.4                            | \$ 1,019.1                     | \$ 217.1                     | \$ 265.3      | \$ 3,131.2 |
| Goodwill from business acquisitions |                |                                       |                                |                              | 458.0         | 458.0      |
| Currency translation                | 13.3           | 0.3                                   | (0.2)                          | (1.8)                        | (4.2)         | 7.4        |
| Other                               | (1.9)          |                                       | 5.8                            | (30.0)                       | 26.1          |            |
| Balance as of September 30, 2004    | 464.7          | 1,176.7                               | 1,024.7                        | 185.3                        | 745.2         | 3,596.6    |
| Goodwill from business acquisitions | 9.0            |                                       |                                |                              |               | 9.0        |
| Currency translation                | 14.7           | 0.3                                   | 92.0                           | 12.8                         | 20.7          | 140.5      |
| Other                               |                |                                       |                                |                              | (2.3)         | (2.3)      |
| Balance as of December 31, 2004     | \$ 488.4       | \$ 1,177.0                            | \$ 1,116.7                     | \$ 198.1                     | \$ 763.6      | \$ 3,743.8 |

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

| (in millions)               | December 31, 2004     |                          |         | September 30, 2004    |                          |         | December 31, 2003     |                          |         |
|-----------------------------|-----------------------|--------------------------|---------|-----------------------|--------------------------|---------|-----------------------|--------------------------|---------|
|                             | Gross Carrying Amount | Accumulated Amortization | Net     | Gross Carrying Amount | Accumulated Amortization | Net     | Gross Carrying Amount | Accumulated Amortization | Net     |
| Amortized intangible assets |                       |                          |         |                       |                          |         |                       |                          |         |
| Patented technology         | \$ 170.8              | \$ (79.8)                | \$ 91.0 | \$ 169.2              | \$ (76.4)                | \$ 92.8 | \$ 164.6              | \$ (68.2)                | \$ 96.4 |
| Unpatented technology       | 81.1                  | (14.7)                   | 66.4    | 75.0                  | (12.6)                   | 62.4    | 75.1                  | (8.5)                    | 66.6    |
| Customer relationships      | 102.9                 | (8.2)                    | 94.7    | 95.9                  | (6.4)                    | 89.5    | 84.3                  | (4.2)                    | 80.1    |
| Miscellaneous               | 9.9                   | (7.8)                    | 2.1     | 10.5                  | (7.4)                    | 3.1     | 10.5                  | (6.6)                    | 3.9     |
|                             | 364.7                 | (110.5)                  | 254.2   | 350.6                 | (102.8)                  | 247.8   | 334.5                 | (87.5)                   | 247.0   |

|   |          |            |          |          |            |          |          |           |          |
|---|----------|------------|----------|----------|------------|----------|----------|-----------|----------|
| Total amortized<br>intangible assets      |          |            |          |          |            |          |          |           |          |
| Unamortized<br>intangible assets          |          |            |          |          |            |          |          |           |          |
| Trademarks                                | 38.8     |            | 38.8     | 37.1     |            | 37.1     | 11.7     |           | 11.7     |
| Pension asset                             | 6.0      |            | 6.0      | 6.0      |            | 6.0      | 8.9      |           | 8.9      |
| Total<br>unamortized<br>intangible assets | 44.8     |            | 44.8     | 43.1     |            | 43.1     | 20.6     |           | 20.6     |
| Total intangible<br>assets                | \$ 409.5 | \$ (110.5) | \$ 299.0 | \$ 393.7 | \$ (102.8) | \$ 290.9 | \$ 355.1 | \$ (87.5) | \$ 267.6 |

Amortization of other intangible assets for the three-month periods ended December 31, 2004 and 2003 was \$6 million and \$5 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates annual amortization of other intangible assets will approximate \$23 million for each of the next five years.

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A summary of comprehensive income is shown below:

| (in millions)   | Three Months<br>ended December 31, |          |
|---|------------------------------------|----------|
|   | 2004                               | 2003     |
| Net income  | \$ 168.4                           | \$ 164.5 |
| Realized and unrealized (losses) gains on derivatives | (4.7)                              | 1.2      |
| Foreign currency translation adjustments              | 199.3                              | 147.6    |
| Other comprehensive income                            | 194.6                              | 148.8    |
| Comprehensive income                                  | \$ 363.0                           | \$ 313.3 |

The higher foreign currency translation adjustments (CTA) for the three months ended December 31, 2004 was primarily due to the approximate 8% increase in the euro compared to an approximate 7% 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 (loss) account. A net loss of approximately \$41 million and \$38 million was recorded for the three-month periods ending December 31, 2004 and 2003, respectively.

**10. 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 8 Goodwill and Other Intangible Assets. In addition, Note 11 Income Taxes, Note 14 Research and Development and Note 17 Contingencies, were added or 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.

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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.

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:

| (in millions)                     | Three Months       |            |
|-----------------------------------|--------------------|------------|
|                                   | Ended December 31, |            |
|                                   | 2004               | 2003       |
| Net sales                         |                    |            |
| Controls Group                    | \$ 1,532.4         | \$ 1,406.9 |
| Seating & Interiors North America | 2,057.5            | 2,101.9    |
| Seating & Interiors Europe        | 2,151.3            | 1,783.5    |
| Seating & Interiors Asia          | 311.5              | 242.2      |
| Battery Group                     | 720.2              | 588.8      |
| Total                             | \$ 6,772.9         | \$ 6,123.3 |
| Operating income                  |                    |            |
| Controls Group                    | \$ 42.6            | \$ 54.4    |
| Seating & Interiors North America | 58.4               | 110.4      |
| Seating & Interiors Europe        | 25.3               | (4.3)      |
| Seating & Interiors Asia          | 7.1                | 3.6        |
| Battery Group                     | 93.1               | 70.8       |
| Total                             | \$ 226.5           | \$ 234.9   |

**11. Income Taxes**

The Company's estimated base effective tax rate for continuing operations declined to 24.5% from 26.8% for the prior year due to continuing global tax planning initiatives. The Company utilized an effective rate for discontinued operations of 35.4% for both periods, which approximates the local statutory rate. The current quarter rate for continuing operations further benefited from an \$11.5 million one time tax benefit related to a change in tax status of a French subsidiary during the quarter while the prior year first quarter benefited from a \$17.0 million favorable tax settlement related to prior periods (1991-1996). The change in tax status resulted from a voluntary tax election that produced a deemed liquidation of the French 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 French 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

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reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes .

The Company's Federal income tax returns and certain foreign income tax returns for fiscal years 1997-2001 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 include 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.

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, we are not yet in a position to decide on whether, and to what extent, we might repatriate foreign earnings that have not yet been remitted to the U.S. Based on our analysis to date, however, it is reasonably possible that we may repatriate some amount between \$0 and \$560 million, which represents the Company's cumulative undistributed earnings of foreign subsidiaries subject to the Act. The respective tax liability ranges from \$0 to \$60 million. We expect to be in a position to finalize our assessment by September 2005.

**12. Restructuring Costs**

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 Selling, general and administrative costs in the Consolidated Statement of Income. These charges primarily relate 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 December 31, 2004, substantially all impacted employees from the Controls Group and approximately 1,170 employees from the Seating & Interiors and Battery Groups have been separated from the Company. 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. A significant portion of the Seating & Interiors and Battery Group actions were concentrated in Europe as the Company focuses on significantly improving profitability in the region. The Controls Group restructuring actions involved activities in both North America and Europe. No further costs related to these specific actions are anticipated. The majority of the restructuring activities are expected to be completed during the current fiscal year.

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

| (in millions)                               | Balance at               | Utilized |         | Balance at              |
|---|--------------------------|----------|---------|-------------------------|
|   | September<br>30,<br>2004 | Cash     | Noncash | December<br>31,<br>2004 |
| Employee severance and termination benefits | \$ 41.8                  | (\$ 6.0) |         | \$ 35.8                 |
| Currency translation                        | (0.4)                    |          | \$ 0.5  | 0.1                     |
|   | \$ 41.4                  | (\$ 6.0) | \$ 0.5  | \$ 35.9                 |

**13. 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 shown in the tables below in accordance with SFAS No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106 :

| (in millions)                           | Pension            |         |                    |        |
|---|--------------------|---------|--------------------|--------|
|   | U.S. Plans         |         | Non-U.S. Plans     |        |
|   | Three Months       |         | Three Months       |        |
|   | Ended December 31, |         | Ended December 31, |        |
|   | 2004               | 2003    | 2004               | 2003   |
| Service cost                            | \$ 16.1            | \$ 14.3 | \$ 7.2             | \$ 6.7 |
| Interest cost                           | 22.3               | 20.5    | 9.8                | 9.6    |
| Employee contributions                  |                    |         | (0.8)              | (1.0)  |
| Expected return on plan assets          | (26.0)             | (26.0)  | (7.5)              | (6.4)  |
| Amortization of transitional obligation | (0.5)              | (0.7)   |                    |        |
| Amortization of net actuarial loss      | 4.9                | 2.6     | 1.7                | 0.8    |
| Amortization of prior service cost      | 0.3                | 0.3     | (0.1)              |        |
| Net periodic benefit cost               | \$ 17.1            | \$ 11.0 | \$ 10.3            | \$ 9.7 |

| (in millions)                      | Postretirement Health and Other Benefits |        |
|------------------------------------|--|--------|
|                                    | Three Months                             |        |
|                                    | Ended December 31,                       |        |
|                                    | 2004                                     | 2003   |
| Service cost                       | \$ 1.4                                   | \$ 1.3 |
| Interest cost                      | 2.6                                      | 2.8    |
| Amortization of net actuarial loss | 0.2                                      | 0.3    |
| Amortization of prior service cost | (0.6)                                    | (0.6)  |

|                           |    |     |    |     |
|---------------------------|----|-----|----|-----|
| Net periodic benefit cost | \$ | 3.6 | \$ | 3.8 |
|---------------------------|----|-----|----|-----|

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**14. 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 \$210 million and \$225 million for the three months ended December 31, 2004 and 2003, respectively.

A portion of the costs associated with these activities is reimbursed by customers, and totaled approximately \$72 million and \$66 million for the three months ended December 31, 2004 and 2003, respectively.

**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 8 Goodwill and other intangible assets, Note 10 Segment information, Note 11 Income taxes and Note 14 Research and development.

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.



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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):

| <b>(In millions)</b>                                | <b>Three Months Ended<br/>December 31, 2004</b> |                 | <b>Three Months Ended<br/>December 31, 2003</b> |                 |
|---|---|-----------------|---|-----------------|
|   | <b>As<br/>Reported</b>                          | <b>Restated</b> | <b>As<br/>Reported</b>                          | <b>Restated</b> |
| <b>Consolidated Statement of Income</b>             |   |                 |   |                 |
| Net sales   | \$ 6,975.5                                      | \$ 6,772.9      | \$ 6,292.9                                      | \$ 6,123.3      |
| Operating income                                    | 245.4   | 226.5           | 253.5   | 234.9           |
| Equity income                                       | 15.8  | 21.5            | 17.8  | 23.1            |
| Minority interests in net earnings of subsidiaries  | 21.0  | 15.1            | 15.5  | 10.0            |
| <b>Consolidated Statement of Financial Position</b> |   |                 |   |                 |
| Investments in partially-owned affiliates           | 325.3   | 464.6           | 425.9   | 545.2           |
| Minority interests in equity of subsidiaries        | 294.8   | 143.9           | 229.5   | 96.9            |

**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.

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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, 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)   | December<br>31,<br>2004 | September<br>30,<br>2004 | December<br>31,<br>2003 |
|---|-------------------------|--------------------------|-------------------------|
| Short-term debt                                       | \$ 901.9                | \$ 813.3                 | \$ 717.6                |
| Less bank borrowings not subject to guarantees        | (111.9)                 | (96.3)                   | (118.7)                 |
| Total short-term debt of Parent subject to guarantees | \$ 790.0                | \$ 717.0                 | \$ 598.9                |
| Long-term debt  | \$ 1,885.9              | \$ 1,857.3               | \$ 1,961.3              |
| Less debt not subject to guarantees:                  |                         |                          |                         |
| Industrial revenue bonds                              |                         | (9.7)                    | (19.5)                  |
| Capital lease obligations                             | (105.6)                 | (89.0)                   | (95.4)                  |
| Euro denominated debt                                 | (161.3)                 | (142.2)                  | (27.4)                  |
| Yen denominated debt                                  | (1.0)                   |                          | (27.6)                  |
| Other long-term debt                                  | (39.2)                  | (39.9)                   | (103.7)                 |
| Total debt subject to guarantees                      | 1,578.8                 | 1,576.5                  | 1,687.7                 |
| Less current portion of Parent subject to guarantees  | (200.0)                 | (200.0)                  | (64.1)                  |
| Total long-term debt of Parent subject to guarantees  | \$ 1,378.8              | \$ 1,376.5               | \$ 1,623.6              |

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.

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| (In millions)   | <b>December 31, 2004</b> |                   |                       |                      | <b>Consolidated</b> |
|---|--------------------------|-------------------|-----------------------|----------------------|---------------------|
|   | <b>Parent</b>            | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b>  |                     |
| <b>ASSETS</b>   |                          |                   |                       |                      |                     |
| Cash and cash equivalents (1)                                     | \$ 388.9                 | (\$ 220.4)        | (\$ 60.6)             | \$                   | \$ 107.9            |
| Accounts receivable net   | 308.7                    | 711.9             | 2,851.5               |                      | 3,872.1             |
| Costs and earnings in excess of billings on uncompleted contracts | 145.2                    |                   | 216.8                 |                      | 362.0               |
| Inventories   | 11.8                     | 217.2             | 685.9                 |                      | 914.9               |
| Assets of discontinued operations                                 |                          |                   | 426.4                 |                      | 426.4               |
| Other current assets  | 112.2                    | 195.9             | 543.1                 |                      | 851.2               |
| <b>Current assets</b>   | <b>966.8</b>             | <b>904.6</b>      | <b>4,663.1</b>        |                      | <b>6,534.5</b>      |
| Property, plant & equipment net                                   | 185.3                    | 917.9             | 2,384.1               |                      | 3,487.3             |
| Goodwill net  | 71.3                     | 1,087.5           | 2,585.0               |                      | 3,743.8             |
| Other intangible assets net                                       | 16.1                     | 48.9              | 234.0                 |                      | 299.0               |
| Investments in partially-owned affiliates                         | 24.3                     | 54.6              | 385.7                 |                      | 464.6               |
| Investments in subsidiaries (2)                                   | 7,362.6                  | 4,710.8           | 8,772.7               | (20,846.1)           |                     |
| Other noncurrent assets   | 193.0                    | 93.1              | 539.5                 |                      | 825.6               |
| <b>Total assets</b>   | <b>\$ 8,819.4</b>        | <b>\$ 7,817.4</b> | <b>\$ 19,564.1</b>    | <b>(\$ 20,846.1)</b> | <b>\$ 15,354.8</b>  |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                        |                          |                   |                       |                      |                     |
| Short-term debt   | \$ 790.0                 | \$                | \$ 111.9              | \$                   | \$ 901.9            |
| Current portion of long-term debt                                 | 200.0                    | 1.3               | 16.1                  |                      | 217.4               |
| Accounts payable  | 189.9                    | 672.3             | 2,528.8               |                      | 3,391.0             |
| Accrued compensation and benefits                                 | 82.6                     | 73.2              | 436.8                 |                      | 592.6               |
| Accrued income taxes  | (155.4)                  | 37.0              | 133.4                 |                      | 15.0                |
| Billings in excess of costs and earnings on uncompleted contracts | 114.0                    |                   | 104.8                 |                      | 218.8               |
| Liabilities of discontinued operations                            |                          |                   | 119.8                 |                      | 119.8               |
| Other current liabilities   | 116.1                    | 165.3             | 718.5                 |                      | 999.9               |
| <b>Current liabilities</b>  | <b>1,337.2</b>           | <b>949.1</b>      | <b>4,170.1</b>        |                      | <b>6,456.4</b>      |
| Long-term debt  | 1,378.8                  | 26.5              | 263.2                 |                      | 1,668.5             |
| Postretirement health and other benefits                          | 77.2                     | 81.8              | 4.6                   |                      | 163.6               |
|   |                          |                   | 143.9                 |                      | 143.9               |

|  |            |            |             |               |             |
|--|------------|------------|-------------|---------------|-------------|
| Minority interests in equity of subsidiaries |            |            |             |               |             |
| Other noncurrent liabilities                 | 444.6      | (209.0)    | 1,105.2     |               | 1,340.8     |
| Shareholders' equity                         | 5,581.6    | 6,969.0    | 13,877.1    | (20,846.1)    | 5,581.6     |
| Total liabilities and shareholders' equity   | \$ 8,819.4 | \$ 7,817.4 | \$ 19,564.1 | (\$ 20,846.1) | \$ 15,354.8 |

(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.

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| (In millions)   | September 30, 2004 |            |                |               | Consolidated |
|---|--------------------|------------|----------------|---------------|--------------|
|   | Parent             | Guarantors | Non-Guarantors | Eliminations  |              |
| <b>ASSETS</b>   |                    |            |                |               |              |
| Cash and cash equivalents (1)                                     | \$ 375.9           | (\$ 101.0) | (\$ 175.7)     | \$            | \$ 99.2      |
| Accounts receivable net   | 345.6              | 738.1      | 2,813.8        |               | 3,897.5      |
| Costs and earnings in excess of billings on uncompleted contracts | 120.2              |            | 208.3          |               | 328.5        |
| Inventories   | 9.0                | 249.4      | 601.3          |               | 859.7        |
| Assets of discontinued operations                                 |                    |            | 394.4          |               | 394.4        |
| Other current assets  | 104.4              | 151.8      | 474.7          |               | 730.9        |
| Current assets  | 955.1              | 1,038.3    | 4,316.8        |               | 6,310.2      |
| Property, plant & equipment net                                   | 183.8              | 927.2      | 2,232.7        |               | 3,343.7      |
| Goodwill net  | 158.2              | 1,079.6    | 2,358.8        |               | 3,596.6      |
| Other intangible assets net                                       | 16.6               | 50.6       | 223.7          |               | 290.9        |
| Investments in partially-owned affiliates                         | 8.9                | 70.0       | 368.8          |               | 447.7        |
| 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  |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                        |                    |            |                |               |              |
| 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      | 2,562.2        |               | 3,481.3      |
| Accrued compensation and benefits                                 | 94.8               | 86.8       | 443.8          |               | 625.4        |
| Accrued income taxes  | (139.5)            | (66.3)     | 254.6          |               | 48.8         |
| Billings in excess of costs and earnings on uncompleted contracts | 106.9              |            | 90.3           |               | 197.2        |
| Liabilities of discontinued operations                            |                    |            | 128.1          |               | 128.1        |
| Other current liabilities   | 102.5              | 177.7      | 618.2          |               | 898.4        |
| Current liabilities   | 1,319.2            | 890.6      | 4,209.4        |               | 6,419.2      |
| 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        |
|   |                    |            | 123.1          |               | 123.1        |

|  |            |            |             |               |             |
|--|------------|------------|-------------|---------------|-------------|
| Minority interests in equity of subsidiaries |            |            |             |               |             |
| 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.

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| (In millions)   | December 31, 2003 |            |                |               | Consolidated |
|---|-------------------|------------|----------------|---------------|--------------|
|   | Parent            | Guarantors | Non-Guarantors | Eliminations  |              |
| <b>ASSETS</b>   |                   |            |                |               |              |
| Cash and cash equivalents (1)                                     | (\$ 29.2)         | \$ 96.6    | \$ 145.6       | \$            | \$ 213.0     |
| Accounts receivable net   | 322.1             | 605.5      | 2,360.8        |               | 3,288.4      |
| Costs and earnings in excess of billings on uncompleted contracts | 123.2             |            | 195.5          |               | 318.7        |
| Inventories   | 11.4              | 224.1      | 545.6          |               | 781.1        |
| Assets of discontinued operations                                 |                   |            | 367.0          |               | 367.0        |
| Other current assets  | 97.9              | 140.8      | 519.4          |               | 758.1        |
| Current assets  | 525.4             | 1,067.0    | 4,133.9        |               | 5,726.3      |
| Property, plant & equipment net                                   | 198.4             | 871.3      | 1,895.0        |               | 2,964.7      |
| Goodwill net  | 112.2             | 1,079.6    | 1,939.4        |               | 3,131.2      |
| Other intangible assets net                                       | 12.9              | 56.2       | 198.5          |               | 267.6        |
| Investments in partially-owned affiliates                         | 28.2              | 159.2      | 357.8          |               | 545.2        |
| Investments in subsidiaries (2)                                   | 6,673.6           | 3,417.5    | 5,030.5        | (15,121.6)    |              |
| Other noncurrent assets   | 215.8             | 71.4       | 467.3          |               | 754.5        |
| Total assets  | \$ 7,766.5        | \$ 6,722.2 | \$ 14,022.4    | (\$ 15,121.6) | \$ 13,389.5  |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                        |                   |            |                |               |              |
| Short-term debt   | \$ 598.9          | \$         | \$ 118.7       | \$            | \$ 717.6     |
| Current portion of long-term debt                                 | 64.1              | 22.9       | 43.7           |               | 130.7        |
| Accounts payable  | 202.4             | 725.7      | 2,105.4        |               | 3,033.5      |
| Accrued compensation and benefits                                 | 33.4              | 71.8       | 356.7          |               | 461.9        |
| Accrued income taxes  | (86.0)            | 58.1       | 122.3          |               | 94.4         |
| Billings in excess of costs and earnings on uncompleted contracts | 119.3             |            | 85.1           |               | 204.4        |
| Liabilities of discontinued operations                            |                   |            | 97.0           |               | 97.0         |
| Other current liabilities   | 151.4             | 122.6      | 568.8          |               | 842.8        |
| Current liabilities   | 1,083.5           | 1,001.1    | 3,497.7        |               | 5,582.3      |
| Long-term debt  | 1,623.6           | 27.8       | 179.2          |               | 1,830.6      |
| Postretirement health and other benefits                          | 80.5              | 83.0       | 3.6            |               | 167.1        |
|   |                   | 1.7        | 95.2           |               | 96.9         |

|  |            |            |             |               |             |
|--|------------|------------|-------------|---------------|-------------|
| Minority interests in equity of subsidiaries |            |            |             |               |             |
| Other noncurrent liabilities                 | 397.3      | (446.6)    | 1,180.3     |               | 1,131.0     |
| Shareholders equity                          | 4,581.6    | 6,055.2    | 9,066.4     | (15,121.6)    | 4,581.6     |
| Total liabilities and shareholders equity    | \$ 7,766.5 | \$ 6,722.2 | \$ 14,022.4 | (\$ 15,121.6) | \$ 13,389.5 |

(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.



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| (In millions)  | <b>Three Months Ended December 31, 2004</b> |                   |                       |                     | <b>Consolidated</b> |
|--|---|-------------------|-----------------------|---------------------|---------------------|
|  | <b>Parent</b>                               | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> |                     |
| Net sales  | \$ 590.4                                    | \$ 1,605.4        | \$ 5,753.8            | (\$ 1,176.7)        | \$ 6,772.9          |
| Cost of sales  | 444.6                                       | 1,378.6           | 5,309.4               | (1,176.7)           | 5,955.9             |
| Gross profit   | 145.8                                       | 226.8             | 444.4                 |                     | 817.0               |
| Selling, general and administrative expenses   | 156.8                                       | 120.5             | 313.2                 |                     | 590.5               |
| Operating income   | (11.0)                                      | 106.3             | 131.2                 |                     | 226.5               |
| Interest income  | 0.1   |                   | 4.0                   |                     | 4.1                 |
| Interest expense   | (20.3)                                      | (0.7)             | (9.6)                 |                     | (30.6)              |
| Equity income  | 0.1   | 3.6               | 17.8                  |                     | 21.5                |
| Miscellaneous net (1)  | 15.5  | (75.7)            | 56.0                  |                     | (4.2)               |
| Other (expense) income   | (4.6)                                       | (72.8)            | 68.2                  |                     | (9.2)               |
| Income from continuing operations before income taxes, minority interests and equity in net earnings of subsidiaries | (15.6)                                      | 33.5              | 199.4                 |                     | 217.3               |
| Income tax (benefit) provision   | (21.4)                                      | 8.3               | 54.8                  |                     | 41.7                |
| Minority interests in net earnings of subsidiaries   |   |                   | 15.1                  |                     | 15.1                |
| Equity in net earnings of subsidiaries   | 162.6                                       | 11.2              |                       | (173.8)             |                     |
| Income from continuing operations  | 168.4                                       | 36.4              | 129.5                 | (173.8)             | 160.5               |
| Income from discontinued operations, net of income taxes   |   |                   | 7.9                   |                     | 7.9                 |

|            |          |         |          |            |          |
|------------|----------|---------|----------|------------|----------|
| Net income | \$ 168.4 | \$ 36.4 | \$ 137.4 | (\$ 173.8) | \$ 168.4 |
|------------|----------|---------|----------|------------|----------|

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

**Three Months Ended December 31, 2003**

| (In millions)  | <b>Parent</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|---------------|-------------------|-----------------------|---------------------|---------------------|
| Net sales  | \$ 596.2      | \$ 1,738.7        | \$ 4,793.0            | (\$ 1,004.6)        | \$ 6,123.3          |
| Cost of sales  | 432.2         | 1,445.5           | 4,429.5               | (1,004.6)           | 5,302.6             |
| Gross profit   | 164.0         | 293.2             | 363.5                 |                     | 820.7               |
| Selling, general and administrative expenses   | 158.7         | 130.2             | 296.9                 |                     | 585.8               |
| Operating income   | 5.3           | 163.0             | 66.6                  |                     | 234.9               |
| Interest income  |               |                   | 1.8                   |                     | 1.8                 |
| Interest expense   | (23.8)        |                   | (3.3)                 |                     | (27.1)              |
| Equity (loss) income   |               | (2.7)             | 25.8                  |                     | 23.1                |
| Miscellaneous net (1)  | 7.5           | (69.8)            | 37.4                  |                     | (24.9)              |
| Other (expense) income   | (16.3)        | (72.5)            | 61.7                  |                     | (27.1)              |
| Income from continuing operations before income taxes, minority interests and equity in net earnings of subsidiaries | (11.0)        | 90.5              | 128.3                 |                     | 207.8               |
| Income tax (benefit) provision   | (26.7)        | 30.5              | 34.8                  |                     | 38.6                |
| Minority interests in net earnings of subsidiaries   |               |                   | 10.0                  |                     | 10.0                |
| Equity in net earnings of subsidiaries   | 148.8         | 12.9              |                       | (161.7)             |                     |
| Income from continuing operations  | 164.5         | 72.9              | 83.5                  | (161.7)             | 159.2               |

|  |          |         |         |            |          |     |
|--|----------|---------|---------|------------|----------|-----|
| Income from discontinued operations, net of income taxes |          |         |         | 5.3        |          | 5.3 |
| Net Income   | \$ 164.5 | \$ 72.9 | \$ 88.8 | (\$ 161.7) | \$ 164.5 |     |

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

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| (In millions)   | <b>Three Months Ended December 31, 2004</b> |                   |                       |                     | <b>Consolidated</b> |
|---|---|-------------------|-----------------------|---------------------|---------------------|
|   | <b>Parent</b>                               | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> |                     |
| <b>Cash provided (used) by operating activities</b>     | \$ 104.8                                    | \$ 266.6          | (\$ 202.6)            | \$                  | \$ 168.8            |
| <b>Investing Activities:</b>                            |   |                   |                       |                     |                     |
| Capital expenditures                                    | (7.2)                                       | (41.1)            | (92.9)                |                     | (141.2)             |
| Sale of property, plant and equipment                   |   |                   | 4.2                   |                     | 4.2                 |
| Acquisition of businesses, net of cash acquired         |   |                   | (33.1)                |                     | (33.1)              |
| Recoverable customer engineering expenditures           |   |                   | (8.6)                 |                     | (8.6)               |
| Changes in long-term investments                        | 2.3   |                   | (4.4)                 |                     | (2.1)               |
| Net investing activities of discontinued operations     |   |                   | (3.0)                 |                     | (3.0)               |
| Cash (used) provided by investing activities            | (4.9)                                       | (41.1)            | (137.8)               |                     | (183.8)             |
| <b>Financing Activities:</b>                            |   |                   |                       |                     |                     |
| Increase in short-term debt net                         | 73.0  |                   | 6.8                   |                     | 79.8                |
| Increase in long-term debt                              |   |                   | 3.4                   |                     | 3.4                 |
| Repayment on long-term debt                             | (60.4)                                      | (9.5)             | (6.8)                 |                     | (76.7)              |
| Change in intercompany accounts                         | (122.9)                                     | (335.4)           | 458.3                 |                     |                     |
| Payment of cash dividends                               | (3.6)                                       |                   |                       |                     | (3.6)               |
| Other net   | 27.0  |                   | (14.9)                |                     | 12.1                |
| Net financing activities of discontinued operations     |   |                   | 8.7                   |                     | 8.7                 |
| Cash (used) provided by financing activities            | (86.9)                                      | (344.9)           | 455.5                 |                     | 23.7                |
| <b>Increase (decrease) in cash and cash equivalents</b> | \$ 13.0                                     | (\$ 119.4)        | \$ 115.1              | \$                  | \$ 8.7              |

| (In millions) | <b>Three Months Ended December 31, 2003</b> |                   |                       |                     | <b>Consolidated</b> |
|---------------|---|-------------------|-----------------------|---------------------|---------------------|
|               | <b>Parent</b>                               | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> |                     |

|   |            |          |          |    |          |
|---|------------|----------|----------|----|----------|
| <b>Cash (used) provided by operating activities</b>     | (\$ 348.2) | \$ 189.8 | \$ 336.0 | \$ | \$ 177.6 |
| <b>Investing Activities:</b>                            |            |          |          |    |          |
| Capital expenditures                                    | (10.5)     | (50.4)   | (121.6)  |    | (182.5)  |
| Sale of property, plant and equipment                   |            |          | 8.9      |    | 8.9      |
| Acquisition of businesses, net of cash acquired         |            |          | (36.6)   |    | (36.6)   |
| Recoverable customer engineering expenditures           |            |          | (49.1)   |    | (49.1)   |
| Changes in long-term investments                        | (0.7)      | (2.5)    | 7.7      |    | 4.5      |
| Net investing activities of discontinued operations     |            |          | (6.0)    |    | (6.0)    |
| Cash used by investing activities                       | (11.2)     | (52.9)   | (196.7)  |    | (260.8)  |
| <b>Financing Activities:</b>                            |            |          |          |    |          |
| Increase in short-term debt net                         | 535.2      |          | 67.1     |    | 602.3    |
| Increase in long-term debt                              |            |          | 49.9     |    | 49.9     |
| Repayment on long-term debt                             | (401.5)    |          | (22.4)   |    | (423.9)  |
| Change in intercompany accounts                         | 153.9      | (38.9)   | (115.0)  |    |          |
| Payment of cash dividends                               | (5.4)      |          |          |    | (5.4)    |
| Other net   | 17.7       |          | (2.9)    |    | 14.8     |
| Net financing activities of discontinued operations     |            |          | (25.4)   |    | (25.4)   |
| Cash provided (used) by financing activities            | 299.9      | (38.9)   | (48.7)   |    | 212.3    |
| <b>(Decrease) increase in cash and cash equivalents</b> | (\$ 59.5)  | \$ 98.0  | \$ 90.6  | \$ | \$ 129.1 |

**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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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.

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**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 December 31, 2004 and 2003, and the related consolidated statements of income and cash flows for each of the three-month periods ended December 31, 2004 and 2003. 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 10, 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

January 31, 2005, except for Note 10, as to which the date is August 9, 2005, and Notes 15 and 16, as to which the date is December 22, 2005

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

**Comparison of Operating Results for the Three-Month Periods ended December 31, 2004 and 2003**

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 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.



**Table of Contents****Net Sales**

The Company's net sales for the three-month periods ended December 31, 2004 and 2003 were as follows:

| (in millions)                     | <b>2004</b> | <b>Restated<br/>2003</b> | <b>%<br/>change</b> |
|-----------------------------------|-------------|--------------------------|---------------------|
| Controls Group                    | \$ 1,532.4  | \$ 1,406.9               | 9%                  |
| Seating & Interiors North America | 2,057.5     | 2,101.9                  | -2%                 |
| Seating & Interiors Europe        | 2,151.3     | 1,783.5                  | 21%                 |
| Seating & Interiors Asia          | 311.5       | 242.2                    | 29%                 |
| Battery Group                     | 720.2       | 588.8                    | 22%                 |
| Total                             | \$ 6,772.9  | \$ 6,123.3               | 11%                 |

Consolidated net sales in the first quarter of fiscal 2005 were \$6.8 billion, rising 11% above the prior year period sales of \$6.1 billion.

**Controls Group**

Controls Group sales in the current period were \$1.5 billion, 9% above the \$1.4 billion in the prior year period.

Excluding the impact of currency translation and acquisitions, segment sales were up 3% over the prior year.

North American sales were 8% above the prior year. Sales of installed systems contracts grew 4%, with increased new construction business partially offset by decreases in existing buildings markets. Service sales were up 10%, primarily attributable to higher volumes of both technical and facility management services.

Excluding the positive effects of currency translation, segment sales in Europe were approximately 5% higher than the prior year. Sales increased in systems renovation, service and facility management businesses, while remaining relatively flat in the new construction market.

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

**Seating & Interiors North America**

Seating & Interiors North America sales were down 2% in the current quarter, which was slightly favorable to the estimated 2.4% decrease in domestic industry vehicle production. The Company benefited from a favorable mix of vehicle sales compared to the industry production.

**Seating & Interiors Europe**

Segment sales in Europe for the current year rose 21% above the prior year period. Excluding the favorable impact of foreign currency translation, European sales were up 10%. The growth was primarily attributable to new seating and interiors business in the current period and a favorable mix of vehicle sales to the estimated slight decline in the estimated European industry production.

**Table of Contents****Seating & Interiors Asia**

Sales in Asia increased 29 percent to \$312 million in comparison to the prior years \$242 million, due to higher volumes across all major regions. Excluding the favorable impact of foreign exchange translation, sales increased 25% compared to the prior period.

**Battery Group**

Automotive battery sales increased 22% to \$720 million compared to the first quarter of the prior year primarily due to the acquisition of the remaining interest in the Company's battery joint venture in the fourth quarter of fiscal year 2004, which added sales of \$76 million. Excluding the impact of the acquisition of the remaining interest in the Company's battery joint venture and the favorable impact of foreign exchange translation, sales increased 6% compared to the prior year period due to higher unit shipments.

**Operating Income**

The Company's operating income for the three-month periods ended December 31, 2004 and 2003 was as follows:

| (in millions)                     | <b>Restated</b> |             | <b>%</b>      |
|-----------------------------------|-----------------|-------------|---------------|
|                                   | <b>2004</b>     | <b>2003</b> | <b>change</b> |
| Controls Group                    | \$ 42.6         | \$ 54.4     | -22%          |
| Seating & Interiors North America | 58.4            | 110.4       | -47%          |
| Seating & Interiors Europe        | 25.3            | (4.3)       | *             |
| Seating & Interiors Asia          | 7.1             | 3.6         | 97%           |
| Battery Group                     | 93.1            | 70.8        | 31%           |
| Consolidated operating income     | \$ 226.5        | \$ 234.9    | -4%           |

\* Metric not meaningful.

Consolidated operating income for the first quarter of fiscal 2005 was \$227 million, down 4% from the prior year's \$235 million.

**Controls Group**

Controls Group operating income in the first quarter of the current year was \$43 million, 22% lower than the prior year period. The decrease was due to slightly higher gross profits in both North America and Europe, more than offset by higher SG&A expense. North American gross profit margins declined due to pricing pressures in the new construction market and the mix of growth among lines of business with more growth coming from the lower margin facility management sales compared to higher margin system and services sales. North American operating margins declined primarily due to SG&A expenses associated with workforce reductions to improve the competitiveness of the systems business. European operating margins were also negatively impacted by SG&A expenses associated with workforce reductions.

**Seating & Interiors North America**

Seating & Interiors North America operating income was \$58 million compared to the prior period operating income of \$110 million. The segment was affected by lower gross profit due to selling price reductions and material cost increases in excess of cost savings, partially offset by lower SG&A expenses.

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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 \$43 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 \$36 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 remainder of fiscal year 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 \$27 million in the period primarily due to lower net engineering expenses.

**Seating & Interiors Europe**

Seating & Interiors Europe operating income was \$25 million, compared to the prior period operating loss of \$4 million. The segment benefited from increased volumes of higher margin interior systems and operational improvements achieved from the prior year restructuring plan and lower SG&A expenses.

Implemented cost reductions, operational efficiencies and the higher sales mix of mature vehicle programs exceeded the incremental sales price reductions by approximately \$19 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 \$5 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. SG&A expenses decreased approximately \$15 million compared to the prior period primarily due to lower net engineering expenses.

**Seating & Interiors Asia**

Seating & Interiors Asia operating income increased \$4 million in comparison to the prior year, due to the favorable impact of currency translation. Excluding favorable impact of currency translation, operating income would have decreased slightly compared to the prior period.

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**Battery Group**

Automotive battery operating income increased \$22 million to \$93 million, a 31% increase compared to the first 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 contributed \$9 million in the current period. Higher unit volume and the benefits of European integration activities also contributed to the increased operating income experienced by the segment.

***Full Year Outlook***

The Company has confirmed its outlook for the full year of 2005, including sales growth of 8 to 10% and double digit increases in operating and net income. For the Automotive Group (which includes Seating & Interiors and Battery Group), sales are expected to be 8% to 10% above the prior year, and operating margin is expected to improve slightly. This outlook assumes North American and European vehicle production levels will be flat to slightly lower in comparison to the prior year. Uncertainties continue in the automotive industry both with respect to vehicle sales and production schedules, as well as markedly higher raw material costs. These uncertainties could cause the Company's actual results to differ materially from the forecasted amounts. Controls Group sales are also projected to increase 8% to 10% above the prior year. The estimate anticipates growth in systems installation in both new and existing building markets and as well as growth in technical services.

Orders for control systems in the first quarter were above the prior year for performance contracting in the domestic market. Strong domestic market sectors included health care and state and local government. The new construction market strengthened in both North America and Europe.

The Controls Group backlog relates to its installed systems and technical service activity, accounted for using the percentage-of-completion method. At December 31, 2004, the unearned backlog to be executed within the next year was \$1.93 billion, 10% above the prior year level of \$1.75 billion.

***Other Income/Expense***

Net interest expense in the current period increased from the prior year period primarily as a result of higher debt levels in the current period. Management expects net interest expense for fiscal year 2005 to be between \$115 and \$120 million, down from previously issued guidance of \$125 to \$130 million. The decrease reflects the utilization of the proceeds from the sale of the discontinued operations to reduce short term borrowings. Equity income for the three months ended December 31, 2004 decreased approximately \$2 million year-over-year primarily due to lower earnings at certain Seating & Interiors joint ventures in China. Miscellaneous net expense in the current quarter was down approximately \$21 million from the prior year period. The decrease primarily reflects lower foreign currency losses in the current period and litigation expenses incurred in the prior period.

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***Provision for Income Taxes***

The Company's estimated base effective tax rate for continuing operations declined to 24.5% from 26.8% for the prior year due to continuing global tax planning initiatives. The Company utilized an effective rate for discontinued operations of 35.4% both periods, which approximates the local statutory rate. The current quarter rate for continuing operations further benefited from an \$11.5 million one time tax benefit related to a change in tax status of a French subsidiary during the quarter. The change in tax status resulted from a voluntary tax election that produced a deemed liquidation of the French 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 French entity from a controlled foreign corporation (i.e. taxable entities) 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, *Reporting for Income Taxes*. The prior year first quarter benefited from a \$17.0 million favorable tax settlement related to prior periods (1991-1996).

***Minority Interests in Net Earnings of Subsidiaries***

Minority interests in net earnings of subsidiaries in the current quarter increased from the prior year. The increase was primarily due to higher earnings at certain Seating & Interiors joint ventures in North America and Asia. Management has not changed its full-year estimate for minority interest in net earnings of subsidiaries which is approximately \$80 to \$90 million, excluding the impact of the deconsolidation of the North American joint venture.

***Income from Continuing Operations***

Income from continuing operations for the three months ended December 31, 2004 was \$161 million, 1% above the prior year's \$159 million. The increased earnings were a result of lower miscellaneous expense, partially offset by lower operating and equity income and higher net interest expense. Diluted earnings per share from continuing operations for the three months ended December 31, 2004 were \$0.83, comparable to the prior year period.

***Comparison of Financial Condition***

***Working Capital and Cash Flow***

Working capital, excluding cash and debt, of \$1.1 billion at December 31, 2004 was \$0.2 billion higher than at fiscal year-end and \$0.3 billion higher than one year ago. The increase from year-end was due to lower accounts payable and higher other current assets at December 31, 2004, partially offset by higher other current liabilities. The increase from one year ago primarily reflects higher accounts receivable, inventories and other current assets, partially offset by higher accounts payable and other current liabilities.

The Company's days sales in accounts receivable for the three months ended December 31, 2004 was 51, a decrease compared to the period ended September 30, 2004 days sales

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in accounts receivable of 54, and a slight increase from 47 for the period ended December 31, 2003.

The Company's inventory turnover ratio for the three months ended December 31, 2004, was 19, consistent to the turnover ratio of 19 for the period ended September 30, 2004, and a slight decrease from 20 for the period ended December 31, 2003.

Cash provided by operating activities of continuing operations in the current quarter was \$175 million compared to \$146 million for the three-month period ended December 31, 2003. The slight increase primarily relates to favorable changes in working capital from continuing operations compared to the prior year.

***Capital Expenditures***

Capital spending for property, plant and equipment for the three-month period ended December 31, 2004 was \$141 million, down \$41 million from the comparable prior year period. The majority of the current quarter spending was attributable to Seating & Interiors. Management has confirmed its estimate for fiscal 2005 capital expenditures of \$725 to \$775 million, excluding the effect of the deconsolidation of the North American joint venture.

***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 December 31, 2004, the Company does not have any material assets whose recovery is at risk.

***Capitalization***

Total capitalization of \$8.4 billion at December 31, 2004 included short-term debt of \$0.9 billion, long-term debt (including the current portion) of \$1.9 billion and shareholders' equity of \$5.6 billion. The Company's total capitalization at September 30, 2004 and December 31, 2003 was \$7.9 billion and \$7.3 billion, respectively. Total debt as a percentage of total capitalization at December 31, 2004 was 33%, compared with 34% at fiscal year-end and 37% one year ago.

On January 10, 2005, the Company announced that it will sell its engine electronics business to Valeo for approximately \$330 million, or about \$437 million. The transaction, which is subject to regulatory approvals, is expected to be completed in the second quarter of fiscal 2005. The engine electronics business generated revenues of \$436 million in fiscal 2004. This non-core business was a part of the Sagem SA automotive electronics business that was acquired in fiscal 2002.

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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 December 31, 2004 were 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.

**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. At December 31, 2004 the Company had sold \$188 million of foreign currency trade accounts receivable. The Company's use of these arrangements has not been a material source of liquidity for the Company. Management intends to discontinue financing its accounts receivables in fiscal 2005.

**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. SFAS 123R is effective for all interim or annual periods 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 that 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, including industry 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.

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**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 December 31, 2004, 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 8 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



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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 8 Goodwill and Other Intangible Assets, Note 10 Segment Information, Note 11 Income Taxes, and Note 14 Research and Development. 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 December 31, 2004. 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 December 31, 2004. 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 December 31, 2004:

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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 December 31, 2004.

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**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 December 31, 2004, 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.

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**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 December 31, 2004. The Swap Agreement's impact on the Company's earnings for the three months ended December 31, 2004 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.

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| <b>Period</b>   | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average Price<br/>Paid<br/>per Share</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased as<br/>Part of the<br/>Publicly<br/>Announced<br/>Program</b> | <b>Approximate<br/>Dollar Value of<br/>Shares that<br/>May<br/>Yet be<br/>Purchased<br/>under<br/>the Program<sup>(1)</sup></b> |
|---|---|---|---|---|
| 10/01/04 10/31/04<br>Purchases by Company<br>Purchases by Citibank<br>Total |   |   |   | \$ 37,505,000<br>\$ 37,505,000  |
| 11/01/04 11/30/04<br>Purchases by Company<br>Purchases by Citibank<br>Total | 398<br><br>398                                      | \$ 62.83<br><br>\$ 62.83                    |   | \$ 30,620,000<br>\$ 30,620,000  |
| 12/01/04 12/31/04<br>Purchases by Company<br>Purchases by Citibank<br>Total |   |   |   | \$ 27,152,000<br>\$ 27,152,000  |

(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**

The registrant held its Annual Meeting of Shareholders on January 26, 2005. Proxies for the meeting were solicited pursuant to Regulation 14; there was no solicitation in opposition to management's nominees for directors as listed in the Proxy Statement, and all such nominees (Natalie A. Black, Robert A. Cornog, William H. Lacy and Stephen A. Roell) were elected. Of the 159,033,490 shares voted, at least 150,941,613 shares granted authority to vote for these directors and no more than 8,091,877 shares withheld such authority.

The retention of PricewaterhouseCoopers LLP as an independent registered public accounting firm was approved by the shareholders with 153,607,093 shares voted for such appointment, 3,188,547 shares voted against and 2,237,850 shares abstained.

**ITEM 6. EXHIBITS**

Reference is made to the separate exhibit index contained on page 41 filed herewith.

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**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

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**JOHNSON CONTROLS, INC.  
INDEX TO EXHIBITS**

| Exhibit No. | Description  |
|-------------|--|
| 12          | Statement Regarding Computation of Ratio of Earnings to Fixed Charges for the Three Months Ended December 31, 2004.  |
| 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. |