JOHNSON CONTROLS INC
Form 10-K
November 29, 2007

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

FORM 10 K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Annual Period Ended September 30, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Transition Period From __________ To

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

Wisconsin	**39-0380010**
(State of Incorporation)	*(I.R.S. Employer Identification No.)*
5757 North Green Bay Avenue **P.O. Box 591** **Milwaukee, Wisconsin**	**53201**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(414) 524-1200
Securities Registered Pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes o No þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

As of March 31, 2007, the aggregate market value of the registrant s Common Stock held by non-affiliates of the registrant was approximately $18.7 billion based on the closing sales price as reported on the New York Stock Exchange. As of October 31, 2007, 593,815,378 shares of the registrant s Common Stock, par value $0.01 7/18 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on January 23, 2008 are incorporated by reference into Part III.

JOHNSON CONTROLS, INC.
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Year Ended September 30, 2007

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1992 Stock Option Plan, as amended
Deferred Compensation Plan
Form of Employment Agreement

Form of Indemnity Agreement
Director Share Unit Plan, as amended
2000 Stock Option Plan, amended
2001 Restricted Stock Plan, amended and restated
Executive Deferred Compensation Plan, amended and restated
Annual Incentive Performance Plan, amended and restated
Retirement Restoration Plan, amended and restated
Compensation Summary for Non-Employee Directors
Long Term Incentive Performance Plan, amended and restated
2007 Stock Option Plan, amended
Subsidiaries
Consent
Certification
Certification
Certification

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CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

Unless otherwise indicated, references to Johnson Controls, the Company, we, our and us in this Annual Report Form 10-K refer to Johnson Controls, Inc. and its consolidated subsidiaries.

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words believe, project, expect, anticipate, estima forecast, outlook, intend, strategy, plan, may, should, will, would, will be, will continue, will negative thereof or variations thereon or similar terminology generally intended to identify forward-looking statements. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled Risk Factors (refer to Part I, Item 1A). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1 BUSINESS

General

Johnson Controls brings ingenuity to the places where people live, work and travel. By integrating technologies, products and services, we create smart environments that redefine the relationships between people and their surroundings. We strive to create a more comfortable, safe and sustainable world through our products and services for more than 200 million vehicles, 12 million homes and one million commercial buildings. Johnson Controls provides innovative automotive interiors that help make driving more comfortable, safe and enjoyable. For buildings, we offer products and services that optimize energy use and improve comfort and security. We also provide batteries for automobiles and hybrid electric vehicles, along with related systems engineering, marketing and service expertise.

Our building efficiency business is a global market leader in designing, producing, marketing and installing integrated heating, ventilating and air conditioning (HVAC) systems, building management systems, controls, security and mechanical equipment. In addition, the building efficiency business provides technical services, energy management consulting and operations of entire real estate portfolios for the non-residential buildings market. We also provide residential air conditioning and heating systems.

Our automotive experience business is one of the world s largest automotive suppliers, providing interior systems to more than 30 million vehicles annually. Our technologies extend into every area of the interior including seating and overhead systems, door systems, floor consoles, instrument panels, cockpits and integrated electronics. Customers include virtually every major automaker in the world.

Our power solutions business is a leading global producer of lead-acid automotive batteries, serving both automotive original equipment manufacturers and the general vehicle battery aftermarket. We produce more than 120 million lead-acid batteries annually. We offer Absorbent Glass Mat (AGM), nickel-metal-hydride and lithium-ion battery technologies to power hybrid vehicles.

Financial Information About Business Segments

Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes the standards for reporting information about operating segments in financial statements. In applying the criteria set forth in SFAS No. 131, the Company has determined that it has ten reportable segments for financial reporting purposes. Certain operating segments are aggregated or combined based on materiality within building efficiency rest of world and power solutions in accordance with SFAS No. 131. The Company s ten reportable segments are presented in the context of its three primary businesses: building efficiency, automotive experience and power solutions.

Refer to Note 17, Segment Information, of the notes to the consolidated financial statements in Item 8 of this report for financial information about business segments.

For the purpose of the following discussion of the Company s businesses, the six building efficiency reportable segments and the three automotive experience reportable segments are presented together due to their similar customers and the similar nature of their products, production processes, and distribution channels.

Products/Systems and Services

Building efficiency

Building efficiency is a global leader in delivering integrated control systems, mechanical equipment, services and solutions designed to improve the comfort, safety and energy efficiency of non-residential buildings and residential properties with operations in more than 125 countries. Revenues come from technical services and the replacement and upgrade of controls and heating, ventilating and air conditioning mechanical equipment in the existing buildings market, where the Company s large base of current customers leads to repeat business and low cyclicality, as well as with installing controls and equipment during the construction of new buildings. Customer relationships often span entire building lifecycles.

Building efficiency sells its control systems, mechanical equipment and services primarily through the Company s extensive global network of sales and service offices. Some types of controls and mechanical systems are sold to distributors of air-conditioning, refrigeration and commercial heating systems throughout the world. Approximately 45% of building efficiency s sales are derived from HVAC products and installed control systems. Approximately 55% of its sales originate from its service offerings. In fiscal 2007, building efficiency accounted for 37% of the Company s consolidated net sales.

The Company s systems include York® chillers, air handlers and other HVAC mechanical equipment that provide heating and cooling in non-residential buildings. The Metasys® control system monitors and integrates HVAC equipment with other critical buildings systems to maximize comfort while reducing energy and operating costs. As one of the largest global suppliers of technical services, building efficiency supplements or serves as in-house staff to maintain, optimize and repair building systems made by the Company or by its competitors. The Company offers a wide range of solutions such as performance contracting under which energy savings are used by the customer to pay a third party financier for the project costs over a number of years. In addition, our global workplace solutions segment provides full-time on-site operations staff and real estate consulting services to help customers, especially multi-national companies, reduce costs and improve the performance of their facility portfolios. The Company s on-site staff typically performs tasks related to the comfort and reliability of the facility, and manages subcontractors for functions like foodservice, cleaning, maintenance and landscaping. Through its North America unitary products business, the Company produces air conditioning and heating equipment for the residential market.

Automotive experience

Automotive experience designs and manufactures products and systems for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover utility vehicles. The business produces automotive interior systems for original equipment manufacturers (OEMs) and operates approximately 165 wholly- and majority-owned manufacturing or assembly plants in 31 countries worldwide (see Item 2 Properties). Additionally, the business has partially-owned affiliates in Asia, Europe, North America and South America.

Automotive experience systems and products include complete seating systems and components; cockpit systems, including instrument panels and clusters, information displays and body controllers; overhead systems, including headliners and electronic convenience features; floor consoles; and door systems. In fiscal 2007, automotive experience accounted for 51% of the Company s consolidated net sales.

The business operates assembly plants that supply automotive OEMs with complete seats on a just-in-time/in-sequence basis. Seats are assembled to specific order and delivered on a predetermined schedule directly to an automotive assembly line. Certain of the business s other automotive interior systems are also supplied on a just-in-time/in-sequence basis. Foam and metal seating components, seat covers, seat mechanisms and other components are shipped to these plants from the business s production facilities or outside suppliers.

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Power solutions

Power solutions services both automotive OEMs and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise. The Company is the largest producer of lead-acid automotive batteries in the world, producing more than 120 million lead-acid batteries annually in approximately 60 wholly- and majority-owned manufacturing or assembly plants in 9 countries worldwide. Investments in new product and process technology have expanded product offerings to AGM, nickel-metal-hydride and lithium-ion battery technology to power hybrid vehicles. Approximately 75% of automotive battery sales worldwide in fiscal 2007 were to the automotive replacement market, with the remaining sales to the OEM market. Sales of automotive batteries generated 12% of the Company s fiscal 2007 consolidated net sales. Batteries and plastic battery containers are manufactured at wholly and partially owned plants in North America, South America, Asia, the Middle East and Europe (see Item 2 Properties).

Competition

Building efficiency

The building efficiency business conducts certain of its operations through thousands of individual contracts that are either negotiated or awarded on a competitive basis. Key factors in the award of contracts include system and service quality, price, design, reputation, technology, efficiency, acoustics, application engineering capability and construction management expertise. Competitors for contracts in the residential and non-residential marketplace include many regional, national and international controls providers; larger competitors include Honeywell International, Inc.; Siemens Building Technologies, an operating group of Siemens AG; Carrier Corporation, a subsidiary of United Technologies Corporation; The Trane Company, a subsidiary of American Standard Companies Inc.; Rheem Manufacturing Company; Lennox International, Inc.; and Goodman Global, Inc. The services market, including global workplace solutions, is highly fragmented. Sales of services are largely dependent upon numerous individual contracts with commercial businesses worldwide; the loss of any individual contract would not have a material adverse effect on the Company.

Automotive experience

The automotive experience business faces competition from other automotive suppliers and, with respect to certain products, from the automobile OEMs who produce or have the capability to produce certain products the business supplies. Competition is based on technology, quality, reliability of delivery and price. Design, engineering and product planning are increasingly important factors. Independent suppliers that represent the principal automotive experience competitors include Lear Corporation, Faurecia SA, and Magna Automotive Inc.

Power solutions

Power solutions is the principal supplier of batteries to many of the largest merchants in the battery aftermarket, including Advance Auto Parts, AutoZone, Robert Bosch GmbH, Costco, Interstate Battery System of America, Pep Boys, Sears, Roebuck & Co and Wal-Mart stores. Automotive batteries are sold throughout the world under private label and under the Company s brand names (Optima®, Varta®, LTH® and Heliar®) to automotive replacement battery retailers and distributors and to automobile manufacturers as original equipment. The power solutions business competes with a number of major domestic and international manufacturers and distributors of lead-acid batteries, as well as a large number of smaller, regional competitors. The power solutions business primarily competes in the battery market with Exide Technologies, GS Yuasa Corporation, East Penn Manufacturing Company and Fiamm Group. The North American, European and Asian lead-acid battery markets are highly competitive. The manufacturers in these markets compete on price, quality, technical innovation, service and warranty.

Backlog

The Company s backlog relating to the building efficiency business is applicable to its sales of systems and services. At September 30, 2007, the backlog was $4.2 billion, compared with $3.7 billion as of September 30, 2006, primarily due to continued market share gains. The preceding data does not include amounts associated with contracts in the global workplace solutions business because such contracts are typically multi-year service awards, nor does it include unitary products. The backlog amount outstanding at any given time is not necessarily indicative of the amount of revenue to be earned in the coming fiscal year.

At September 30, 2007, the Company s automotive experience backlog of net new incremental business to be executed within the next three fiscal years was approximately $3.9 billion, $0.9 billion of which relates to fiscal 2008. The backlog as of September 30, 2006 was approximately $3.5 billion. The increase in backlog is primarily due to market share gains in Europe and higher vehicle production volumes in Asia. The automotive backlog is generally subject to a number of risks and uncertainties, such as related vehicle production volumes, the timing of related production launches and changes in customer development plans.

Raw Materials

Raw materials used by the businesses in connection with their operations, including lead, steel, urethane chemicals, copper, sulfuric acid and polypropylene, were readily available during the year and such availability is expected to continue. In fiscal 2008, the Company expects continued volatility in lead prices, increases in foam chemical, resin and fuel costs due to rising oil prices, and relatively stable copper and steel costs.

Intellectual Property

Generally, the Company seeks statutory protection for strategic or financially important intellectual property developed in connection with its business. Certain intellectual property, where appropriate, is protected by contracts, licenses, confidentiality or other agreements.

The Company owns numerous U.S. and non-U.S. patents (and their respective counterparts), the more important of which cover those technologies and inventions embodied in current products, or which are used in the manufacture of those products. While the Company believes patents are important to its business operations and in the aggregate constitute a valuable asset, no single patent, or group of patents, is critical to the success of the business. The Company, from time to time, grants licenses under its patents and technology and receives licenses under patents and technology of others.

The Company s trademarks, certain of which are material to its business, are registered or otherwise legally protected in the U.S. and many non-U.S. countries where products and services of the Company are sold. The Company, from time to time, becomes involved in trademark licensing transactions.

Most works of authorship produced for the Company, such as computer programs, catalogs and sales literature, carry appropriate notices indicating the Company s claim to copyright protection under U.S. law and appropriate international treaties.

Environmental, Health and Safety Matters

Laws addressing the protection of the environment (Environmental Laws) and workers safety and health (Worker Safety Laws) govern the Company s ongoing global operations. They generally provide for civil and criminal penalties, as well as injunctive and remedial relief, for noncompliance or require remediation of sites where Company-related materials have been released into the environment.

The Company has expended substantial resources globally, both financial and managerial, to comply with Environmental Laws and Worker Safety Laws and maintains procedures designed to foster and ensure compliance. Certain of the Company s businesses are or have been engaged in the handling or use of substances that may impact workplace health and safety or the environment. The Company is committed to protecting its workers and the environment against the risks associated with these substances.

The Company s operations and facilities have been, and in the future may become, the subject of formal or informal enforcement actions or proceedings for noncompliance with such laws or for the remediation of Company-related substances released into the environment. Such matters typically are resolved by negotiation with regulatory authorities that result in commitments to compliance, abatement, or remediation programs and, in some cases, payment of penalties. Historically, neither such commitments nor such penalties have been material. (See Item 3 Legal Proceedings of this report for a discussion of the Company s potential environmental liabilities.)

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Environmental Capital Expenditures

The Company s ongoing environmental compliance program often results in capital expenditures. Environmental considerations are a part of all significant capital expenditures; however, expenditures in fiscal 2007 related solely to environmental compliance were not material. It is management s opinion that the amount of any future capital expenditures related solely to environmental compliance will not have a material adverse effect on the Company s financial results or competitive position in any one year.

Employees

As of September 30, 2007, the Company employed approximately 140,000 employees, of whom approximately 93,000 were hourly and 47,000 were salaried.

Seasonal Factors

Certain of building efficiency s sales are seasonal as the demand for residential air conditioning equipment generally increases in the summer months, while the demand for furnaces peaks during the autumn months. This seasonality is mitigated by the other products and services provided by the building efficiency business that have no material seasonal effect.

Sales of automotive seating and interior systems and of batteries to automobile OEMs for use as original equipment are dependent upon the demand for new automobiles. Management believes that demand for new automobiles generally reflects sensitivity to overall economic conditions with no material seasonal effect.

The automotive replacement battery market is affected by weather patterns because batteries are more likely to fail when extremely low temperatures place substantial additional power requirements upon a vehicle s electrical system. Also, battery life is shortened by extremely high temperatures, which accelerate corrosion rates. Therefore, either mild winter or moderate summer temperatures may adversely affect automotive replacement battery sales.

Financial Information About Geographic Areas

Refer to Note 17, Segment Information, of the notes to the consolidated financial statements in Item 8 of this report for financial information about geographic areas.

Research and Development Expenditures

Refer to Note 1, Summary of Significant Accounting Policies, of the notes to the consolidated financial statements in Item 8 of this report for research and development expenditures.

Available Information

The Company s filings with the U.S. Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, definitive proxy statements on Schedule 14A, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13 or 15(d) of the Exchange Act, are made available free of charge through the Investor Relations section of the Company s Internet website at http://www.johnsoncontrols.com as soon as reasonably practicable after the Company electronically files such material with, or furnishes them to, the SEC. Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC s website at http://www.sec.gov, at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC s Office of Investor Education and Assistance at 1-800-732-0330. The Company also makes available, free of charge, its Ethics Policy, Corporate Governance Guidelines, Board of Director committee charters and other information related to the Company on the Company s Internet website or in printed form upon request. The Company is not including the information contained on the Company s website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K.

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ITEM 1A RISK FACTORS

General Risks

We are subject to pricing pressure from our larger customers.

We face significant competitive pressures in all of our business segments. Because of their purchasing size, our larger customers can influence market participants to compete on price terms. If we are not able to offset pricing reductions resulting from these pressures by improved operating efficiencies and reduced expenditures, those pricing reductions may have an adverse impact on our business.

We are subject to risks associated with our non-U.S. operations which could adversely affect our results of operations.

We have significant operations in a number of countries outside the U.S., some of which are located in emerging markets. Long-term economic uncertainty in some of the regions of the world in which we operate, such as Asia, South America, the Middle East, Central Europe and other emerging markets, could result in the disruption of markets and negatively affect cash flows from our operations to cover our capital needs and debt service.

In addition, as a result of our global presence, a significant portion of our revenues and expenses are denominated in currencies other than the U.S. dollar. We are therefore subject to foreign currency risks and foreign exchange exposure. Our primary exposures are to the Euro, British pound, Japanese yen, Czech koruna, Mexican peso, Swiss franc and Chinese yuan. While we employ financial instruments to hedge transactional and foreign exchange exposure, these activities do not insulate us completely from those exposures.

There are other risks that are inherent in our non-U.S. operations, including the potential for changes in socio-economic conditions, laws and regulations, including import, export, labor and environmental laws and monetary and fiscal policies, protectionist measures that may prohibit acquisitions or joint ventures, unsettled political conditions and possible terrorist attacks against American interests.

These and other factors may have a material adverse effect on our non-U.S. operations and therefore on our business and results of operations.

We are subject to regulation of our international operations that could adversely affect our business and results of operations.

Due to our global operations, we are subject to many laws governing international relations, including those that prohibit improper payments to government officials and restrict where we can do business, what information or products we can supply to certain countries and what information we can provide to a non-U.S. government, including but not limited to the Foreign Corrupt Practices Act and the U.S. Export Administration Act. Violations of these laws, which are complex and often times difficult to interpret and apply, may result in severe criminal penalties or sanctions that could have a material adverse effect on our business, financial condition and results of operations.

We are subject to costly requirements relating to environmental regulation and environmental remediation matters, which could adversely affect our business and results of operations.

Because of uncertainties associated with environmental regulation and environmental remediation activities at sites where we may be liable, future expenses that we may incur to remediate identified sites could be considerably higher than the current accrued liability on our balance sheet, which could have a material adverse effect on our business and results of operations. As of September 30, 2007, we recorded $27 million for environmental liabilities and $81 million in related conditional asset retirement obligations.

Negative or unexpected tax consequences could adversely affect our results of operations.

Adverse changes in the underlying profitability and financial outlook of our operations in several jurisdictions could lead to changes in our valuation allowances against deferred tax assets and other tax reserves on our statement of financial position that could materially and adversely affect our results of operations. Additionally, changes in statutory tax rates in the U.S. or in other countries where the Company has significant operations could materially affect deferred tax assets and liabilities on our balance sheet.

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We are also subject to tax audits by governmental authorities in the U.S. and in non-U.S. jurisdictions. Negative unexpected results from one or more such tax audits could adversely affect our results of operations.

Legal proceedings in which we are, or may be, a party may adversely affect us.

We are currently and may in the future become subject to legal proceedings and commercial or contractual disputes. These are typically claims that arise in the normal course of business including, without limitation, commercial or contractual disputes with our suppliers, intellectual property matters and employment claims. There exists the possibility that such claims may have an adverse impact on our results of operations that is greater than we anticipate.

An increase in our level of indebtedness could lead to a downgrade in the ratings of our debt and, in turn, restrict our ability to access the debt capital markets.

Changes in the ratings that rating agencies assign to our debt may ultimately impact our access to the debt capital markets. An increase in the level of our indebtedness in the future, to the extent that we finance future acquisitions with debt, for example, may result in a downgrade in the ratings that are assigned to our debt. If ratings for our debt fall below investment grade, our access to the debt capital markets would become restricted.

Additionally, several of our credit agreements generally include an increase in interest rates if the ratings for our debt are downgraded. Further, an increase in the level of our indebtedness may increase our vulnerability to adverse general economic and industry conditions and may affect our ability to obtain additional financing.

We may be unable to complete or integrate acquisitions effectively, which may adversely affect our growth, profitability and results of operations.

We expect acquisitions of businesses and assets to play a role in our company s future growth. We cannot be certain that we will be able to identify attractive acquisition targets, obtain financing for acquisitions on satisfactory terms or successfully acquire identified targets. Additionally, we may not be successful in integrating acquired businesses into our existing operations and achieving projected synergies. Competition for acquisition opportunities in the various industries in which we operate may rise, thereby increasing our costs of making acquisitions or causing us to refrain from making further acquisitions. These and other acquisition-related factors may negatively and adversely impact our growth, profitability and results of operations.

Building Efficiency Risks

Our building efficiency business relies to a great extent on contracts and business with U.S. government entities, the loss of which may adversely affect our results of operations.

Our building efficiency business contracts with government entities and is subject to specific rules, regulations and approvals applicable to government contractors. We are subject to routine audits by the Defense Contract Audit Agency to assure our compliance with these requirements. Our failure to comply with these or other laws and regulations could result in contract terminations, suspension or debarment from contracting with the U.S. federal government, civil fines and damages and criminal prosecution. In addition, changes in procurement policies, budget considerations, unexpected U.S. developments, such as terrorist attacks, or similar political developments or events abroad that may change the U.S. federal government s national security defense posture may affect sales to government entities.

A variety of other factors could adversely affect the results of operations of our building efficiency business.

Any of the following could materially and adversely impact the results of operations of our building efficiency business: loss of, or changes in, building automation or facility management supply contracts with our major customers; delays or difficulties in new product development; the potential introduction of similar or superior technologies; financial instability or market declines of our major or component suppliers; the unavailability of raw materials, primarily steel, copper and electronic components, necessary for production of HVAC equipment; rapid increases and volatility of commodity prices; unseasonable weather conditions in various parts of the world; a significant decline in the construction of new commercial buildings requiring interior control systems; a significant decline in residential housing starts; changes in energy costs or governmental regulations that would decrease the incentive for customers to update or improve their interior control systems;

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increased energy efficiency legislation requirements worldwide; a decline in the outsourcing of facility management services; and availability of labor to support growth of our service businesses.

Automotive Experience Risks

Decreased demand from our customers in the automotive industry may adversely affect our results of operations.

In fiscal 2007, our three largest customers were automobile manufacturers Ford Motor Company, General Motors Corporation and DaimlerChrysler AG (now Daimler AG and Chrysler LLP) (the Detroit 3), with consolidated global net sales to these customers representing approximately 28% of total Company net sales. Sales to the Detroit 3 originating in the U.S. represented approximately 10% of our consolidated net sales in fiscal 2007. Our financial performance depends, in part, on conditions in the automotive industry. The Detroit 3 have experienced declining market shares in North America and have announced significant restructuring actions in an effort to improve profitability. The North American automotive manufacturers are also burdened with substantial structural costs, such as pension and healthcare costs, that have impacted their profitability and labor relations and may ultimately result in severe financial difficulty, including bankruptcy. If our customers, especially the Detroit 3, reduce their orders to us, it would adversely impact our results of operations. Additionally, we have significant component production for manufacturers of motor vehicles in the U.S., Europe, South America, Japan and other Asia/Pacific Rim countries. Continued uncertainty relating to the financial condition of the Detroit 3 and others in the automotive industry may have a negative impact on our business.

The financial distress of our suppliers could harm our results of operations.

Automotive industry conditions have adversely affected our supplier base. Lower production levels for some of our key customers and increases in certain raw material, commodity and energy costs have resulted in severe financial distress among many companies within the automotive supply base. Several large suppliers have filed for bankruptcy protection or ceased operations. The continuation of financial distress within the supplier base may lead to increased commercial disputes and possible supply chain interruptions. In addition, the adverse industry environment has required us to provide financial support to distressed suppliers or take other measures to ensure uninterrupted production. The continuation or worsening of these industry conditions may have a negative impact on our business.

Change in consumer demand may adversely affect our results of operations.

Recent and any future increases in energy costs that consumers incur is resulting in shifts in consumer demand away from motor vehicles that typically have higher amounts of content that we supply, such as light trucks, cross-over vehicles, minivans and SUVs, to smaller vehicles that have lower amounts of content that we supply. The loss of business with respect to, or a lack of commercial success of, one or more particular vehicle models for which we are a significant supplier could reduce our sales and harm our profitability, thereby adversely affecting our results of operations.

We may not be able to successfully negotiate pricing terms with our customers in the automotive experience business, which may adversely affect our results of operations.

We negotiate sales prices annually with our automotive seating and interiors customers. Cost-cutting initiatives that our customers have adopted generally result in increased downward pressure on pricing. Our customer supply agreements generally require reductions in component pricing over the period of production. Pricing pressures may further intensify, particularly in North America, as the Detroit 3 pursue restructuring and cost cutting initiatives to better compete with their non-U.S. competitors. If we are unable to generate sufficient production cost savings in the future to offset price reductions, our results of operations may be adversely affected.

Increases in commodity prices may adversely affect our results of operations.

Commodity prices have risen rapidly in the past three years. In our two largest markets, North America and Europe, the cost of commodities, primarily steel, resin and chemicals, has increased (net of recoveries through price increases to customers). If commodity prices continue to rise, and if we are not able to recover these cost increases through price increases to our customers, then such increases may have an adverse effect on our results of operations.

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The cyclicality of original equipment automobile production rates may adversely affect the results of operations in our automotive experience business.
Our automotive experience business is directly related to automotive sales and automotive production by our customers. Automotive production and sales are highly cyclical and depend on general economic conditions and other factors, including consumer spending and preferences. Any significant economic decline that results in a reduction in automotive production and sales by our automotive experience customers may have a material adverse impact on our results of operations.

A variety of other factors could adversely affect the results of operations of our automotive experience business.
Any of the following could materially and adversely impact the results of operations of our automotive experience business: the loss of, or changes in, automobile seating and interiors supply contracts or sourcing strategies with our major customers or suppliers; inability to meet minimum vendor volume requirements; start-up expenses associated with new vehicle programs or delays or cancellations of such programs; underutilization of our manufacturing facilities, which are generally located near, and devoted to, a particular customer s facility; inability to recover engineering and tooling costs; market and financial consequences of any recalls that may be required on products that we have supplied; delays or difficulties in new product development; the potential introduction of similar or superior technologies; and global overcapacity and vehicle platform proliferation.

Power Solutions Risks

We face increasing competition and pricing pressure from other companies in the power solutions business.
The power solutions business competes with a number of major domestic and international manufacturers and distributors of lead-acid batteries, as well as a large number of smaller, regional competitors. The North American, European and Asian lead-acid battery markets are highly competitive. The manufacturers in these markets compete on price, quality, technical innovation, service and warranty. If we are unable to remain competitive and maintain market share in the regions and markets we serve, our results of operations may be adversely affected.

Increases in commodity prices may adversely affect our results of operations.
Lead is a major component of our lead acid batteries. Lead prices have risen dramatically in the past 18 months. If the price of lead continues to rise, and if we are not able to recover these cost increases through price increases to our customers or with commodity hedging strategies, then such increases may have an adverse effect on our results of operations.

A variety of other factors could adversely affect the results of operations of our power solutions business.
Any of the following could materially and adversely impact the results of operations of our power solutions business: loss of or changes in automobile battery supply contracts with our large original equipment and aftermarket customers; the increasing quality and useful life of batteries or use of alternative battery technologies, both of which may contribute to a growth slowdown in the lead-acid battery market; delays or cancellations of new vehicle programs; market and financial consequences of any recalls that may be required on our products; delays or difficulties in new product development, including nickel-metal-hydride/lithium-ion technology; financial instability or market declines of our customers or suppliers; the increasing global environmental regulation related to the manufacture of lead-acid batteries; and the lack of the development of a market for hybrid vehicles.

ITEM 1B UNRESOLVED STAFF COMMENTS

The Company has received no written comments regarding its periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our fiscal 2007 that remain unresolved.

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ITEM 2 PROPERTIES

At September 30, 2007, the Company conducted its operations in 65 countries throughout the world, with its world headquarters located in Milwaukee, Wisconsin. The Company s wholly- and majority-owned facilities, which are listed in the table on the following pages by business and location, totaled approximately 95 million square feet of floor space and are owned by the Company except as noted. The facilities primarily consisted of manufacturing, assembly and/or warehouse space. The Company considers its facilities to be suitable and adequate for their current uses. The majority of the facilities are operating at normal levels based on capacity.

Building Efficiency

Florida	Largo (1),(3)	France	Carquefou (2),(3)
	Medley (1)		Nantes
Illinois	Dixon (2),(3)		Saint Quentin Fallavier (1),(3)
Kentucky	Eranger	Germany	Essen (2),(3)
Maryland	Baltimore (1)		Kempen (1),(4)
Mississippi	Hattiesburg		Mannheim (1)
Missouri	Albany	Hong Kong	Hong Kong
Oklahoma	Norman (1),(3)	Italy	Milan (1),(4)
Pennsylvania	York	India	Pune (1),(4)
	Waynesboro (3)	Japan	Koga (3)
Texas	San Antonio	Mexico	Cienega de Flores (1)
Virginia	Roanoke		Durango
Wisconsin	Glendale (4)		Monterrey
	Milwaukee (2),(4)	Poland	Warsaw (1)
		Puerto Rico	Carolina (1),(4)
Austria	Graz (4)	Russia	Moscow (1),(3)
	Vienna (4)	South Africa	Johannesburg (1),(3)
Brazil	Pinhais	Spain	Sabadell (1),(4)
	São Paulo (1),(3)	Sweden	Norrkoping (1)
Belgium	Diegem (1),(4)	Switzerland	Basel (1),(3)
Canada	Victoria (1),(4)		Zurich
China	Qingyuan (2),(3)	Taiwan	Taipei (1)
	Wuxi (1),(3)	Thailand	Laem Chanbang Chonburi
Denmark	Aarhus (1),(3)	Turkey	Istanbul (1),(3)
	Hornslet (2),(3)		Izmir (1),(3)
	Viby	United Arab Emirates	Dubai (2),(3)
		UK	Essex (1),(4)

Automotive Experience

Alabama	Cottondale (1),(3)	Michigan	Plymouth (2),(3)
California	Livermore (2),(3)		Taylor (1),(3)
Georgia	Suwanee (1)		Warren (3)
Illinois	Sycamore (2),(3)	Mississippi	Madison
Indiana	Ossian	Missouri	Earth City (1),(3)
Kentucky	Bardstown (3)		Jefferson City (3)
	Cadiz (3)	Ohio	Greenfield
	Georgetown (3)		Northwood
	Shelbyville (1)		Oberlin (1),(3)
	Winchester (1)	Tennessee	Athens (2)

Louisiana	Shreveport		Lexington (3)
Michigan	Battle Creek		Murfreesboro (2)
	Detroit (3)	Texas	El Paso (1),(3)
	Holland (2),(3)		San Antonio (2),(3)
	Lansing (3)	Wisconsin	Hudson (1),(3)

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Automotive Experience (continued)

Argentina	Buenos Aires (1)	Hungary	Pilis
	Rosario		Solymar (2)
Australia	Adelaide (1)	Italy	Cicerale (3)
	Melbourne		Grugliasco (1),(3)
Austria	Graz (1),(3)		Melfi (1),(3)
	Mandling (3)		Rocca D Evandro (1)
Belgium	Geel (3)	Japan	Ayase (2),(3)
	Gent (1),(3)		Hamakita (2),(3)
Brazil	Gravatai (3)		Mooka (2),(3)
	Pouso Alegre		Mouka
	San Bernardo do Campo (1)		Toyotsucho (2),(3)
	Santo Andre		Yokosuka (2),(3)
	Sao Jose dos Campos	Korea	Ansan (1), (4)
	Sao Jose dos Pinhais (1)		Asan (3)
Canada	Milton (1),(3)		Dangjin (3)
	Mississauga (1),(3)		Jeongeup (1)
	Orangeville		Namsa (1)
	Saint Mary s	Malaysia	Johor Bahru
	Tecumseh		Peramu Jaya (1)
	Tilsonburg (3)		Persiaran Sabak Bernam
	Whitby	Mexico	Monclova (3)
China	Beijing (3)		Naucalpan de Juarez (1)
Czech Republic	Benatky nad Jizerou (1),(3)		Puebla (2),(3)
	Ceska Lipa (2),(3)		Ramos Arizpe
	Mlada Boleslav (1),(3)		Tlaxcala (3)
	Ni Ebohy (1)		Tlazala (1)
	Roudnice (2),(3)	Netherlands	Ned Car (1), (3)
	Rychnov nad Kneznou (1),(3)	Poland	Tychy (3)
	Straz pod Ralskem (3)	Portugal	Nelas (3)
France	Brioude (1),(3)		Portalegre (3)
	Cergy Pontoise	Romania	Mioveni (1),(3)
	Compagnie (3)		Ploiesti (3)
	Conflans (3)	Russia	St. Petersburg (1),(3)
	Happich (3)	Slovak Republic	Bratislava (1),(3)
	La Ferte Bernard (1),(3)		Kostany nad Turcom (3)
	Rosny	Slovenia	Slovenj Gradec (1),(3)
	Schweighaus (3)	South Africa	East London (1)
	Strasbourg (3)		Pretoria (2),(3)
Germany	Bochum (1),(3)		Uitenhage (1)
	Bremen (1),(3)	Spain	Abrera (1),(4)
	Burscheid (2),(3)		Alagon (3)
	Espelkamp (3)		Madrid (1),(3)
	Grefrath (1),(3)		Prat de Llobregat
	Hannover (1),(3)		Valencia (2),(3)
	Holzgerlingen (1),(3)		Valladolid
	Lahnwerk (2),(3)		Zaragoza (3)
	Luneburg	Thailand	Rayong (3)

Neustadt (3)	Tunisia	Bi r al Bay (3)
Rastatt (1),(3)		Valladolid
Remchingen (3)		Zaragoza (3)
Saarlouis (1)	United Kingdom	Burton-Upon-Trent (2),(3)
Uberherrn (1),(3)		Leamington Spa (1),(3)
Unterriexingen (2),(3)		Redditch (1),(3)
Waghausel (3)		Speke (3)
Wuppertal (2),(3)		Sunderland
Zwickau (3)		Telford (2),(3)
		Wednesbury (3)

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	Power Solutions		
Arizona	Yuma (2), (3)	China	Shanghai (3)
Colorado	Aurora (1),(3)	Czech Republic	Ceska Lipa (3)
Delaware	Middletown (1),(3)	France	Rouen
Florida	Tampa (2)		Sarreguemines (3)
Illinois	Geneva	Germany	Hannover (3)
Indiana	Ft. Wayne		Krautscheid (3)
Iowa	Red Oak		Zwickau (2),(3)
Kentucky	Florence (2),(3)	Mexico	Celaya
Missouri	St. Joseph (2),(3)		Cienega de Flores
North Carolina	Winston-Salem (3)		Escobedo
Oregon	Portland		Monterrey (2),(3)
South Carolina	Florence (3)		Torreon
Texas	San Antonio (3)	Poland	Wroclaw (1)
Wisconsin	Milwaukee (4)	Spain	Burgos (3)
			Guadamar del Segura
Austria	Vienna (4)		Guadalajara
Brazil	Sorocaba (3)	Sweden	Hultsfred
	Corporate		
Wisconsin	Milwaukee (4)		

(1) Leased facility

(2) Includes both leased and owned facilities

(3) Includes both administrative and manufacturing facilities

(4) Administrative facility only

In addition to the above listing, which identifies large properties (greater than 25,000 square feet), there are approximately 565 building efficiency branch offices and other administrative offices located in major cities throughout the world. These offices vary in size in proportion to the volume of business in the particular locality.

ITEM 3 LEGAL PROCEEDINGS

As noted in Item 1, liabilities potentially arise globally under various Environmental Laws and Worker Safety Laws for activities that are not in compliance with such laws and for the cleanup of sites where Company-related substances have been released into the environment.

Currently, the Company is responding to allegations that it is responsible for performing environmental remediation, or for the repayment of costs spent by governmental entities or others performing remediation, at approximately 60 sites in the U.S. Many of these sites are landfills used by the Company in the past for the disposal of waste materials; others are secondary lead smelters and lead recycling sites where the Company returned lead-containing materials for recycling; a few involve the cleanup of Company manufacturing facilities; and the remaining fall into miscellaneous categories. The Company may face similar claims of liability at additional sites in the future. Where potential liabilities are alleged, the Company pursues a course of action intended to mitigate them.

The Company accrues for potential environmental losses in a manner consistent with accounting principles generally accepted in the United States; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Reserves for environmental costs totaled $27 million and $34 million at September 30, 2007 and 2006, respectively. The Company reviews the status of its environmental sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company s ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company has no reason to believe at the present time that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company s financial position, results of operations or cash flows.

The Company is involved in a number of product liability and various other lawsuits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and lawsuits of this nature. It is management s opinion that none of these will have a material 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.

As previously reported, following allegations in a U.N. Oil-For-Food Inquiry Report that, prior to the Company s acquisition of York International Corporation (York), York had made improper payments to the Iraqi regime, York and the Company jointly undertook to investigate the allegations and offered the companies cooperation to the United States Department of Justice (DOJ) and the SEC. After completing the York acquisition, the Company continued the internal inquiry and expanded its scope to include other aspects of York s Middle East operations, including a review of York s use of agents, consultants and other third parties, York s compliance with the Office of Foreign Assets Control licensing requirements, and York s compliance with other potentially applicable trade laws. The Company also reviewed certain of York s sales practices in other markets. In October 2007, York reached settlements relating to the SEC and DOJ investigations regarding payments made by York and its subsidiaries in connection with the United Nations Oil-for-Food Program and other payments unrelated to the Oil-for-Food Program. Specifically, York entered into an agreement with the SEC under which York consented to the entry of a civil injunction proscribing future violations of law. York also entered into an agreement with the DOJ under which the DOJ agreed to defer prosecuting York for three criminal charges. The DOJ will not pursue the charges if York complies with the agreement for its three-year term. The agreements with both the SEC and DOJ required that York retain an independent compliance monitor for three years. York paid an aggregate of approximately $22 million to the SEC and the DOJ pursuant to these settlements, which payments were characterized as disgorgement of profits, criminal and civil penalties and interest. The Company had reserves adequate for this amount. The Company is offering continued cooperation to other relevant authorities in the U.S. Departments of Treasury, Commerce and Navy. The Company has begun discussions with these relevant authorities to explore how these matters may be resolved and expects that any additional sanctions are not expected to be material. The Company is in the process of evaluating and implementing various remedial measures with respect to York operations.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) of Form 10-K, the following list of executive officers of the Company as of November 15, 2007 is included as an unnumbered Item in Part I of this report in lieu of being included in the Company s fiscal 2007 Proxy Statement.

Stephen A. Roell, 57, was elected Chief Executive Officer effective in October 2007 and Chairman effective in January 2008. He was first elected to the Board of Directors in October 2004 and served as Executive Vice President from October 2004 through September 2007. Mr. Roell previously served as Chief Financial Officer between 1991 and May 2005, Senior Vice President from September 1998 to October 2004 and Vice President from 1991 to September 1998. Mr. Roell joined the Company in 1982.

John M. Barth, 61, was elected Chairman in January 2004 and a member of the Board of Directors in November 1997. In July 2007, the Company announced that Mr. Barth would retire as Chairman on December 31, 2007. He previously served as Chief Executive Officer from October 2002 through September 2007, President from September 1998 to July 2006, Chief Operating Officer from September 1998 to October 2002 and an Executive Vice President with responsibility for automotive experience from 1992 to September 1998. Mr. Barth joined the Company in 1969.

Keith E. Wandell, 57, was elected President and Chief Operating Officer in July 2006. He previously served as Executive Vice President from May 2005 to July 2006, Corporate Vice President from January 1997 to May 2005, President of automotive experience from August 2003 to July 2006 and President of power solutions from October 1998 to August 2003. Mr. Wandell joined the Company in 1988.

Susan F. Davis, 54, was elected Executive Vice President of Human Resources in September 2006. She previously served as Vice President of Human Resources from May 1994 to September 2006 and as Vice President of Organizational Development for automotive experience from August 1993 to April 1994. Ms. Davis joined the Company in 1983.

R. Bruce McDonald, 47, was elected Executive Vice President in September 2006 and Chief Financial Officer in May 2005. He previously served as Corporate Vice President from January 2002 to September 2006, Assistant Chief Financial Officer from October 2004 to May 2005 and Corporate Controller from November 2001 to October 2004. Mr. McDonald joined the Company in 2001.

Beda Bolzenius, 51, was elected a Corporate Vice President in November 2005 and serves as President of the automotive experience business. He previously served as Executive Vice President and General Manager Europe, Africa and South America for automotive experience from November 2004 to November 2005. Dr. Bolzenius joined the Company in November 2004 from Robert Bosch GmbH, a global manufacturer of automotive and industrial technology, consumer goods and building technology, where he most recently served as the president of Bosch s Body Electronics division.

Alex A. Molinaroli, 48, was elected a Corporate Vice President in May 2004 and has served as President of the power solutions business since January 2007. Previously, Mr. Molinaroli served as Vice President and General Manager for North America Systems & the Middle East for the building efficiency business and has held increasing levels of responsibility for controls systems and services sales and operations. Mr. Molinaroli joined the Company in 1983.

C. David Myers, 44, was elected a Corporate Vice President and President of the building efficiency business in December 2005, when he joined the Company in connection with the acquisition of York. At York, Mr. Myers served as Chief Executive Officer from February 2004 to December 2005, President from June 2003 to December 2005, Executive Vice President and Chief Financial Officer from January 2003 to June 2003 and Vice President and Chief Financial Officer from February 2000 to January 2003.

Jeffrey G. Augustin, 45, was elected a Corporate Vice President in March 2005 and has served as Vice President of Finance for the building efficiency business since December 2005. Previously, Mr. Augustin served as Corporate Controller from March 2005 to March 2007. From 2001 to March 2005, Mr. Augustin was Vice President of Finance and Corporate Controller of Gateway, Inc.

Jeffrey S. Edwards, 45, was elected a Corporate Vice President in May 2004 and serves as Group Vice President and General Manager for Japan and Asia Pacific for the automotive experience business. He previously served as Group Vice President and General Manager for automotive experience North America from August 2002 to May 2004 and Group Vice President and General Manager for product and business development. Mr. Edwards joined the Company in 1984.

Giovanni John Fiori, 64, was elected an Executive Vice President in August 2002 and serves as President of Johnson Controls International. He previously served as the President of automotive operations in Europe, Africa, South America and Asia and Vice President of automotive seating operations in Europe. Mr. Fiori joined the Company in 1987.

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Charles A. Harvey, 55, was elected Corporate Vice President of Diversity and Public Affairs in November 2005. He previously served as Vice President of human resources for the automotive experience business and in other human resources leadership positions. Mr. Harvey joined the Company in 1991.

Susan M. Kreh, 45, was elected Vice President and Corporate Controller in March 2007 and serves as the Company s Principal Accounting Officer. Prior to joining the Company, Ms. Kreh served 22 years at PPG Industries, Inc., including as Corporate Treasurer from January 2002 until March 2007.

Jerome D. Okarma, 55, was elected Vice President, Secretary and General Counsel in November 2004 and was named a Corporate Vice President in September 2003. He previously served as Assistant Secretary from 1990 to November 2004 and as Deputy General Counsel from June 2000 to November 2004. Mr. Okarma joined the Company in 1989.

Subhash Sam S. Valanju, 64, was elected a Corporate Vice President in 1999 and has served as Chief Information Officer since joining the Company in 1996.

Frank A. Voltolina, 47, was elected a Corporate Vice President and Corporate Treasurer in July 2003 when he joined the Company. Prior to joining the Company, Mr. Voltolina was Vice President and Treasurer at ArvinMeritor, Inc.

Denise M. Zutz, 56, was elected Vice President of Strategy, Investor Relations and Communication in November 2004. She previously served as Vice President, Corporate Communication from 1991 to November 2004. Ms. Zutz joined the Company in 1973.

There are no family relationships, as defined by the instructions to this item, among the Company s executive officers. All officers are elected for terms that expire on the date of the meeting of the Board of Directors following the Annual Meeting of Shareholders or until their successors are elected and qualified.

PART II

ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s shares of common stock are traded on the New York Stock Exchange under the symbol JCI.

Title of Class	Number of Record Holders as of September 30, 2007
Common Stock, $0.01 7/18 par value	47,810

	Common Stock Price Range		Dividends *	
	2007	2006	2007	2006
First Quarter	$ 23.84-29.48	$ 20.09-24.65	$ 0.11	$ 0.09
Second Quarter	28.09-33.22	22.25-25.81	0.11	0.09
Third Quarter	31.35-39.25	24.67-30.00	0.11	0.09
Fourth Quarter	33.17-43.07	22.80-28.60	0.11	0.09
Year	$ 23.84-43.07	$ 20.09-30.00	$ 0.44	$ 0.37

* Due to rounding, all quarterly dividend amounts may not equal the dividend amount for the year.

On July 25, 2007, the Company s Board of Directors declared a three-for-one stock split of the common stock payable October 2, 2007 to shareholders of record on September 14, 2007. This stock split resulted in an increase of approximately 396 million in the outstanding shares of common stock. All share or per share data in this Form 10-K have been restated to reflect the three-for-one stock split.

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In September 2006, the Company s Board of Directors authorized a stock repurchase program to acquire up to $200 million of the Company s outstanding common stock. Stock repurchases under this program may be made through open market, privately negotiated transactions or otherwise at times and in such amounts as Company management deems appropriate. The stock repurchase program does not have an expiration date and may be limited or terminated by the Board of Directors at any time without prior notice. There were $26 million in common stock repurchases made under the stock repurchase program in the fiscal year ended September 30, 2007.

The Company entered into an Equity Swap Agreement, dated March 18, 2004 and amended March 3, 2006 and May 16, 2006 (Swap Agreement), with Citibank, N.A. (Citibank). The Company selectively uses equity swaps to reduce market risk associated with its stock-based compensation plans, such as its deferred compensation plans and stock appreciation rights. 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 $200 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 net effect of the change in fair value of the Swap Agreement and the change in equity compensation liabilities was not material to the Company s earnings for the fiscal years ended September 30, 2007 and 2006. In the three months ended March 31, 2007, Citibank reduced its holding of Company stock by 100,000 shares in connection with the Swap Agreement and Citibank maintained this reduced holding through September 30, 2007.

The following information in the Item 5 is not deemed to be soliciting material or the be filed with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 (Exchange Act) or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing:

The line graph below compares the cumulative total shareholder return on our Common Stock with the cumulative total return of companies on the Standard & Poor s (S&P s) 500 Stock Index and companies formerly on the S&P s Manufacturers (Diversified Industrials) Index.* This graph assumes the investment of $100 on September 1, 2002 and the reinvestment of all dividends since that date.

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COMPANY/INDEX	Sep02	Sep03	Sep04	Sep05	Sep06	Sep07
Johnson Controls, Inc.	100	125.31	152.90	169.84	199.35	332.67
Manufacturers (Diversified Industrials) *	100	130.23	173.97	176.79	199.33	259.86
S&P 500 Comp-Ltd.	100	124.38	141.62	158.97	176.12	205.07

* The Manufacturers (Diversified Industrials) index was discontinued as a formal index of Standard & Poors effective December 31, 2001. The company has replicated the index using return data for the fourteen companies that comprised the Manufacturers (Diversified Industrials) as of that date.

The Company has filed as exhibits to this Annual Report on Form 10-K the CEO and CFO certifications required by Section 302 of the Sarbanes-Oxley Act of 2002. The Company also submitted the Annual CEO certification to the New York Stock Exchange.

The Company s transfer agent s contact information is as follows:

Wells Fargo Bank Minnesota, N.A.
Shareowner Services Department
P.O. Box 64856
St. Paul, MN 55164-0856
(877) 602-7397

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ITEM 6 SELECTED FINANCIAL DATA

The following selected financial data reflects the results of operations, balance sheet data, and common share information for the fiscal years ended September 30, 2003 through September 30, 2007 (in millions, except per share data, number of employees and shareholders).

	Year ended September 30,				
	2007	2006 (2)	2005	2004	2003
OPERATING RESULTS					
Net sales	$ 34,624	$ 32,235	$ 27,479	$ 24,603	$ 21,171
Segment income (3)	1,884	1,608	1,326	1,168	1,055
Income from continuing operations	1,295	1,033	757	767	645
Net income	1,252	1,028	909	818	683
Earnings per share from continuing operations (1)					
Basic	$ 2.19	$ 1.77	$ 1.32	$ 1.36	$ 1.19
Diluted	2.16	1.75	1.30	1.33	1.13
Earnings per share (1)					
Basic	$ 2.12	$ 1.76	$ 1.58	$ 1.45	$ 1.26
Diluted	2.09	1.74	1.56	1.41	1.20
Return on average shareholders equity (4)	16%	15%	13%	16%	17%
Capital expenditures	$ 828	$ 711	$ 664	$ 817	$ 606
Depreciation and amortization	732	705	639	594	528
Number of employees	140,000	136,000	114,000	113,000	108,000
FINANCIAL POSITION					
Working capital (5)	$ 1,441	$ 1,357	$ 892	$ 520	$ 479
Total assets	24,105	21,921	16,144	14,758	12,917
Long-term debt	3,255	4,166	1,577	1,631	1,777
Total debt	4,418	4,743	2,342	2,671	2,355
Shareholders equity	8,907	7,355	6,058	5,206	4,261
Total debt to total capitalization	33%	39%	28%	34%	36%
Net book value per share (1)	$ 15.00	$ 12.52	$ 10.47	$ 9.14	$ 7.74
COMMON SHARE INFORMATION (1)					
Dividends per share	$ 0.44	$ 0.37	$ 0.33	$ 0.30	$ 0.24
Market prices					
High	$ 43.07	$ 30.00	$ 21.33	$ 20.77	$ 16.81
Low	23.84	20.09	17.52	15.87	11.52
Weighted average shares (in millions)					
Basic	590.6	583.5	575.4	563.1	536.1
Diluted	599.2	589.9	582.9	577.8	567.3
Number of shareholders	47,810	51,240	52,964	55,460	55,823

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(1) All share and per share amounts reflect a three-for-one common stock split payable October 2, 2007 to shareholders of record on September 14, 2007.

(2) In December 2005, the Company acquired York, significantly expanding the building efficiency business. See Items 7 and 8 for additional details related to the acquisition.

(3) Segment income is calculated as income from continuing operations before income taxes and minority interests excluding net financing charges, restructuring costs and Japanese pension gain (fiscal 2004 only).

(4) Return on average shareholders equity (ROE) represents income from

continuing operations divided by average equity. Income from continuing operations includes $197 million, $210 million and $82 million of restructuring costs in fiscal years 2006, 2005 and 2004, respectively. Additionally, fiscal 2004 includes an $84 million Japanese pension gain.

(5) Working capital is defined as current assets less current liabilities, excluding cash, short-term debt, the current portion of long-term debt and net assets of discontinued operations.

ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Company operates in three primary businesses: building efficiency, automotive experience and power solutions. Building efficiency provides facility systems, services and workplace solutions including comfort, energy and security management for the residential and non-residential buildings markets. Automotive experience designs and manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover utility vehicles. Power solutions designs and manufactures automotive batteries for the replacement and original equipment markets.

On December 9, 2005, the Company acquired York International Corporation (York), a leading global provider of heating, ventilating, air conditioning (HVAC) equipment and services. The results of York s operations are included in the Company s consolidated financial statements from the date of acquisition. As part of the York integration, the Company reorganized its building efficiency business to maximize the synergies related to the York and legacy Johnson Controls operations. The new building efficiency structure is organized by product, service and/or region, with both York and Johnson Controls operations integrated within these segments as applicable.

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity of the Company for the three-year period ended September 30, 2007. This discussion should be read in conjunction with Item 8, the consolidated financial statements and notes to the consolidated financial statements.

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Executive Overview

In fiscal 2007, the Company recorded record net sales and record net income. Net sales were $34.6 billion, a 7% increase over the prior year, and net income was $1.3 billion, a 22% increase over the prior year, with such increases primarily due to the Company s increased share in its global markets and increased operational efficiencies. The Company continues to introduce new and enhanced technology applications in all businesses and markets served, while at the same time improving the quality of its products.

Building efficiency business net sales and segment income increased 24% and 56%, respectively, over the prior year, primarily due to increased commercial market share gains, expansion into emerging markets, revenue synergies and the full year impact of the York acquisition. The prior year period also included $53 million of expense related to the York acquisition for the amortization for the write-up of inventory. Improvements in cost structure and productivity have resulted in higher operating margins and a platform for future growth.

The automotive experience business was unfavorably impacted by lower automobile production in North America and Europe, partially offset by the favorable impact of foreign currency translation. Net sales and segment income decreased 4% and 14%, respectively, from the prior year.

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Net sales and segment income for the power solutions business increased by 17% and 12%, respectively, over the prior year, primarily due to a higher unit prices resulting from significant increases in the cost of lead and the favorable impact of foreign currency translation.
Since September 30, 2006, the Company has repaid approximately $433 million of debt to reduce its total debt to capitalization ratio to 33% at September 30, 2007 from 39% at September 30, 2006. The Company expects continued reduction of this ratio in fiscal 2008, exclusive of the impact of acquisitions, if any.
In fiscal 2008, the Company anticipates that net sales will grow to approximately $38 billion, an increase of 10% from 2007, which includes expected 40% growth in the power solutions business net sales due to the pass-through of higher lead costs and an increase in worldwide volume, expected 15% growth in the building efficiency business net sales from growth in markets and increase in market share and expected level sales in the automotive experience business. The Company anticipates that diluted earnings per share from continuing operations will be approximately $2.45 to $2.50 in fiscal 2008, an 18% increase over fiscal 2007.

Segment Analysis

Management historically evaluated the performance of its operating segments based primarily on operating income, excluding restructuring costs and other significant gains and losses. For this purpose, consolidated operating income also excluded interest income and expense, equity in earnings of partially-owned affiliates, gains and losses from sales of businesses, foreign currency gains and losses, and certain miscellaneous revenues and expenses.
Beginning in fiscal 2007, Company management, including the chief operating decision maker, adjusted their measurement of business unit performance, changing from operating income to segment income, which represents income from continuing operations before income taxes and minority interests excluding net financing charges and restructuring costs. The primary reason for the modification was to reflect equity income in earnings for each business operation given its growing significance to the Company s global business strategies.

FISCAL YEAR 2007 COMPARED TO FISCAL YEAR 2006

Summary

	Year Ended September 30,		
(In millions)	2007	2006	Change
Net sales	$34,624	$32,235	7%
Segment income	1,884	1,608	17%

Net sales increased $2.4 billion, primarily due to growth in the building efficiency business ($2.0 billion) resulting from increased commercial market share gains, expansion into emerging markets, revenue synergies and the full year impact of the December 2005 York acquisition, the favorable impact of foreign currency translation ($1.5 billion) and higher power solutions net sales ($0.5 billion) related to higher unit prices resulting from significant increases in the cost of lead, partially offset by lower sales in the automotive experience business ($1.6 billion) reflecting weaker North American and European automotive markets.

Excluding the favorable effects of foreign currency translation, consolidated net sales increased 3% as compared to the prior year.

Segment income increased $276 million, primarily due to higher volumes and margins in the building efficiency business ($272 million) a favorable product mix in the power solutions segment despite increased lead costs ($81 million) and the favorable impact of foreign currency translation ($80 million), partially offset by the impact of lower North American and European automobile production ($148 million).

Excluding the favorable effects of foreign currency translation, consolidated segment income increased 12% as compared to the prior year.

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Building Efficiency

	Net Sales for the Year Ended September 30,			Segment Income for the Year Ended September 30,		
(In millions)	2007	2006	Change	2007	2006	Change
North America Systems	$ 2,027	$ 1,609	26%	$ 216	$ 131	65%
North America Service	2,273	1,943	17%	197	146	35%
North America Unitary Products	953	853	12%	65	62	5%
Global Workplace Solutions	2,677	2,046	31%	79	67	18%
Europe	2,406	1,900	27%	77	2	*
Rest of World	2,401	1,894	27%	216	136	59%
	$ 12,737	$ 10,245	24%	$ 850	$ 544	56%

* Measure not meaningful

Net Sales:

Europe, Global Workplace Solutions and Rest of World were favorably impacted from the strengthening of foreign currencies against the U.S. dollar by approximately $220 million, $150 million and $80 million, respectively.

North America Systems, North America Service, Europe and Rest of World increased primarily due to higher volumes, expanded cross-selling opportunities and the full year impact of the December 2005 York acquisition.

North America Unitary Products increased primarily due to the full year impact of the York acquisition and higher unit selling prices associated with the change over to SEER 13 technology, partially offset by lower unit volumes due to a continued decline in new home construction.

In addition to favorable foreign currency exchange, Global Workplace Solutions increased primarily due to new and expanded commercial contracts in North America and Europe, including France Telecom, Deloitte Touche Tohmatsu, British Broadcasting Corporation and the full year impact of Royal Dutch Shell plc.

Segment Income:

For all building efficiency segments, except Global Workplace Solutions, the current period includes two additional months of segment income related to the December 2005 York acquisition. The prior year period also included $53 million of expense related to the York acquisition for the amortization of the write-up of inventory ($5 million for North America Systems, $7 million for North America Service, $14 million for North America Unitary Products, $16 million for Europe and $11 million for Rest of World).

North America Systems also increased primarily due to higher equipment and branch and product sales volumes, improved pricing, higher margins and realization of synergies from the York acquisition and the effect on prior year results of non-recurring York integration costs, partially offset by higher operating costs to support the business growth.

North America Service, Europe and Rest of World also increased primarily due to higher volumes, realization of synergies from the York acquisition and the effect on prior year results of non-recurring York integration costs and operational efficiencies from the branch office redesign efforts in Europe in the prior year, partially offset by higher SG&A expenses to support the business growth.

North America Unitary Products increased due to the full year impact of the York acquisition, partially offset by lower production volumes.

Global Workplace Solutions increased primarily due to higher volumes and expansion of services.

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Automotive Experience

	Net Sales for the Year Ended September 30,			Segment Income for the Year Ended September 30,		
(In millions)	2007	2006	Change	2007	2006	Change
North America	$ 7,276	$ 8,041	-10%	$ 72	$ 188	-62%
Europe	8,878	8,774	1%	445	405	10%
Asia	1,398	1,459	-4%	2	12	-83%
	$ 17,552	$ 18,274	-4%	$ 519	$ 605	-14%

Net Sales:

North America decreased primarily due to volume reductions with all major U.S. automakers, mainly in the full-size pick-up truck, minivan and sport utility vehicle platforms.

Europe improved slightly due to the favorable impact of foreign currency translation ($810 million) offset by lower volumes with all major customer platforms ($700 million).

Asia decreased primarily due to lower volumes in Japan, partially offset by the favorable impact of foreign currency translation ($40 million).

Segment Income:

North America decreased primarily due to lower sales volume ($165 million), partially offset by lower net engineering expenses and cost reduction programs, purchasing savings, the benefit of restructuring activities and other operational efficiencies.

Europe increased primarily due to the favorable impact of foreign currency translation ($53 million), cost reduction programs, purchasing savings, the benefit of restructuring activities and other operational efficiencies ($100 million), partially offset by lower volume and unfavorable vehicle sales mix ($53 million) and higher net engineering costs ($20 million) to support new business.

Asia decreased primarily due to lower volumes ($30 million), mainly in Japan and Malaysia, partially offset by operational efficiencies ($20 million), mainly in Japan and Korea.

Power Solutions

	Year Ended September 30,		
(In millions)	2007	2006	Change
Net sales	$4,335	$3,716	17%
Segment income	515	459	12%

Net sales increased primarily due to higher unit prices resulting from significant increases in the cost of lead ($375 million), favorable price/mix in North America and Asia ($160 million), and the favorable impact of foreign currency translation ($115 million). Unit sales of automotive batteries were consistent with prior year levels.

Segment income increased primarily due to favorable price/mix, operational performance and integration benefits associated with the fiscal 2005 acquisition of Delphi s battery business, as well as the favorable impact of foreign currency translation ($10 million), partially offset by the impact of higher lead costs ($55 million) and higher SG&A costs in North America ($15 million) mainly resulting from a favorable prior year legal settlement associated with the recovery of previously incurred environmental costs.

Restructuring Costs

As part of its continuing efforts to reduce costs and improve the efficiency of its global operations, the Company committed to a restructuring plan (2006 Plan) in the third quarter of fiscal 2006 and recorded a $197 million restructuring charge. The 2006 Plan primarily included workforce reductions and plant consolidations in the automotive experience and building efficiency businesses. The automotive experience business related restructuring was focused on improving the profitability associated with the manufacturing and supply of instrument panels, headliners and other interior components in North

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America and increasing the efficiency of seating component operations in Europe. The charges associated with the building efficiency business primarily related to Europe where the Company launched a systems redesign initiative. During the fourth quarter of fiscal 2006, automotive experience North America recorded an additional $8 million for employee severance and termination benefits.

The 2006 Plan included workforce reductions of approximately 5,000 employees (2,500 for automotive experience North America, 1,400 for automotive experience Europe, 200 for building efficiency North America, 600 for building efficiency Europe, 280 for building efficiency Rest of World and 20 for power solutions). Restructuring charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of September 30, 2007, approximately 4,400 employees have been separated from the Company pursuant to the 2006 Plan. In addition, the 2006 Plan includes 15 plant closures (10 in automotive experience North America, 3 in automotive experience Europe, 1 in building efficiency Europe and 1 in building efficiency Rest of World). As of September 30, 2007, 14 of the 15 plants have been closed. The charge for the impairment of the long-lived assets associated with the plant closures was determined using an undiscounted cash flow analysis.

Net Financing Charges

	Year Ended September 30,		
(In millions)	2007	2006	Change
Net financing charges	$277	$273	1%

Net financing charges increased slightly primarily due to higher average debt levels throughout fiscal 2007.

Provision for Income Taxes

The Company s base effective income tax rate for continuing operations for fiscal 2007 and 2006 was 21.0% (prior to certain discrete period items as outlined below).

The Company s effective tax rate for fiscal 2007 was further reduced as a result of the favorable resolution of certain tax audits ($28 million), a change in tax status of an automotive experience subsidiary in the Netherlands ($22 million) and a nonrecurring tax benefit related to the use of a portion of the Company s capital loss carryforward valuation allowance ($7 million), partially offset by the impact from the reduction in the German federal income tax rate ($20 million).

The Company s effective tax rate for fiscal 2006 was further reduced as a result of a reversal of valuation allowances at certain Mexican and German subsidiaries of $32 million and $131 million, respectively, a $19 million discrete period tax benefit related to the third quarter 2006 restructuring charge using a blended statutory tax rate of 30.6%, a $10 million tax benefit related to a favorable tax audit resolution in a non-U.S. country, an $11 million tax benefit related to a change in tax status for subsidiaries in Hungary and the Netherlands and a $4 million tax benefit related to the disposition of an interest in a German joint venture, partially offset by $31 million of tax expense related to the repatriation of non-U.S. earnings.

Restructuring Charge

In the third quarter of fiscal 2006, the Company recorded a $19 million discrete period tax benefit related to the third quarter 2006 restructuring charge using a blended statutory tax rate of 30.6%.

Valuation Allowance Adjustments

The Company reviews its deferred tax asset valuation allowances on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset are considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company s valuation allowances may be necessary.

In the fourth quarter of fiscal 2007, the tax provision decreased $7 million due to a nonrecurring tax benefit related to the use of a portion of the Company s capital loss carryforward valuation allowance.

In the third quarter of fiscal 2006, the Company completed an analysis of its German operations and, based on cumulative income over a 36-month period, an assessment of expected future profitability in Germany and finalization

of the 2006 Plan,

determined that it was more likely than not that the tax benefits of certain operating loss and tax credit carryforwards in Germany would be utilized in the future. As such, the Company reversed $131 million attributable to these operating loss and tax credit carryforwards in the quarter ended June 30, 2006 as a credit to income tax expense, net of remaining valuation allowances at certain German subsidiaries and tax reserve requirements.

Based on the Company s cumulative operating results through the six months ended March 31, 2006 and an assessment of expected future profitability in Mexico, the Company concluded that it was more likely than not that the tax benefits of its operating loss and tax credit carryforwards in Mexico would be utilized in the future. During the second quarter of fiscal 2006, the Company completed a tax reorganization in Mexico which will allow operating loss and tax credit carryforwards to be offset against the future taxable income of the reorganized entities. As such, in the quarter ended March 31, 2006, the Company reversed the valuation allowance of $32 million attributable to these operating loss and tax credit carryforwards as a credit to income tax expense.

Uncertain Tax Positions

The Company is subject to income taxes in the U.S. and numerous non-U.S. jurisdictions. Significant judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company s business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities. Accruals for tax contingencies are provided for in accordance with the requirements of SFAS No. 5 Accounting for Contingencies.

In the second and fourth quarters of fiscal 2007, the Company reduced its income tax liability by $15 million and $13 million, respectively, due to the favorable resolution of certain tax audits. In the third quarter of fiscal 2006, the Company recorded a $10 million tax benefit related to a favorable tax audit resolution in a non-U.S. jurisdiction.

The Company s federal income tax returns and certain non-U.S. income tax returns for various fiscal years remain under various stages of audit by the Internal Revenue Service and respective non-U.S. tax authorities. Although the outcome of tax audits are always uncertain, management believes that it has appropriate support for the positions taken on its tax returns and that its annual tax provisions included amounts sufficient to pay assessments, if any, which may be proposed by the taxing authorities. At September 30, 2007, the Company had recorded a liability for its best estimate of the probable loss on certain of its tax positions, the majority of which is included in other noncurrent liabilities in the consolidated statements of financial position. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities, may differ materially from the amounts accrued for each year.

Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, will be effective for the Company beginning October 1, 2007. The Company has determined that the adoption of FIN 48 will not be material to the Company s consolidated financial position.

Change in Statutory Tax Rates

The German Corporate Tax Reform Act was enacted on August 14, 2007, and resulted in a decrease of the combined Corporate Income Tax and Trade Tax rates. The new rates will apply to the Company s German entities effective October 1, 2007. The Company s tax provision increased $20 million in the fourth quarter of fiscal 2007 as a result of this German tax law change.

In March 2007, the People s National Congress in the People s Republic of China approved a new tax reform law to align the tax regime applicable to non-U.S.-owned Chinese enterprises with those applicable to domestically-owned Chinese enterprises. The new law will be effective on January 1, 2008. The tax reform law does not have a material impact on the Company s consolidated financial condition, results of operations or cash flows.

On July 19, 2007, the U.K. enacted a new tax law, which reduces the main corporate income tax rate from 30% to 28%. The reduction goes into effect on April 1, 2008. The U.K. tax rate change will not have a material impact on the company s consolidated financial condition, results of operations or cash flows.

Foreign Dividend Repatriation

In October 2004, the U.S. President signed the American Jobs Creation Act of 2004 (AJCA). The AJCA created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received

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deduction for certain dividends from controlled non-U.S. operations. The deduction was subject to a number of limitations. During the quarter ended March 31, 2006, the Company completed its evaluation of its repatriation plans and approximately $674 million of non-U.S. earnings were designated for repatriation to the U.S. pursuant to the provisions of the AJCA. The increase in income tax liability related to the Company s AJCA initiatives totaled $42 million. The Company recorded $31 million of net income tax expense in the quarter ended March 31, 2006, as $11 million had been previously recorded by York prior to the acquisition in accordance with York s approved repatriation plan.

Disposition of a Joint Venture

In the first quarter of fiscal 2006, the tax provision decreased due to a $4 million nonrecurring tax benefit related to a $9 million gain from the disposition of the Company s interest in a German joint venture.

Change in Tax Status of Non-U.S. Subsidiary

In the second quarter of fiscal 2007, the tax provision decreased as a result of a $22 million tax benefit realized by a change in tax status of an automotive experience subsidiary in the Netherlands. In the first quarter of fiscal 2006, the tax provision decreased as a result of an $11 million tax benefit realized by a change in tax status of an automotive experience subsidiary in Hungary and a building efficiency subsidiary in the Netherlands.

The change in tax status in each respective period resulted from a voluntary tax election that produced a deemed liquidation for U.S. federal income tax purposes. The Company received a tax benefit in the U.S. for the loss from the decrease in value from the original tax basis of these investments. This election changed the tax status of the respective subsidiaries from controlled non-U.S. corporations (i.e., taxable entities) to branches (i.e., flow through entities similar to a partnership) for U.S. federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109.

Discontinued Operations

The Company utilized an effective tax rate for discontinued operations of approximately 38%, 39% and 35% for Bristol Compressors, Johnson Controls World Services, Inc. and its engine electronic business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences.

Minority Interests in Net Earnings of Subsidiaries

Minority interests in net earnings of subsidiaries were $12 million in fiscal 2007 compared with $42 million in the prior year primarily due to losses at an automotive experience North America start-up joint venture and lower earnings at certain automotive experience Asian joint ventures because of start-up and engineering costs associated with new programs.

Net Income

Net income for fiscal 2007 was $1.3 billion, 30% above the prior year s $1.0 billion, primarily due to higher volumes and improved margins in the building efficiency and power solutions businesses, prior year restructuring costs ($197 million pre-tax) and the full year impact of the York acquisition, partially offset by increased losses from discontinued operations ($45 million), primarily from the sale of the Bristol Compressor business in March 2007, and lower volumes in automotive experience North America and Europe. Fiscal 2007 diluted earnings per share from continuing operations were $2.16, a 23% increase from the prior year s $1.75.

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FISCAL YEAR 2006 COMPARED TO FISCAL YEAR 2005
Summary

(In millions)	Year Ended September 30, 2006	2005	Change
Net sales	$32,235	$27,479	17%
Segment income	1,608	1,326	21%

Net sales increased primarily due to the impact of the York and Delphi acquisitions and organic growth in the power solutions business, partially offset by lower North American automobile production and unfavorable foreign currency translation ($500 million).

Excluding the unfavorable effects of foreign currency translation, fiscal 2006 consolidated net sales increased 19% as compared to fiscal 2005.

Segment income increased primarily due to the impact of the York and Delphi acquisitions and organic growth in the power solutions business, partially offset by increased raw material costs, including lead and petroleum-based products, lower North American automobile production and unfavorable foreign currency translation ($25 million). Segment income was also favorably impacted on a net basis in fiscal 2006 by legal and customer contract settlements which were partially offset by York integration costs.

Excluding the unfavorable effects of foreign currency translation, segment income increased 23% as compared to the prior year.

Building Efficiency

	Net Sales for the Year Ended September 30,			Segment Income for the Year Ended September 30,		
(In millions)	2006	2005	Change	2006	2005	Change
North America Systems	$ 1,609	$ 1,158	39%	$ 131	$ 111	18%
North America Service	1,943	1,186	64%	146	85	72%
North America Unitary Products	853		*	62		*
Global Workplace Solutions	2,046	1,863	10%	67	67	0%
Europe	1,900	899	111%	2	(1)	300%
Rest of World	1,894	612	209%	136	39	249%
	$ 10,245	$ 5,718	79%	$ 544	$ 301	81%

* Measure not meaningful as segment relates to December 2005 York acquisition

Net Sales:

North America Systems, North America Service, North America Unitary Products, Europe and Rest of World increased primarily due to the impact of the York acquisition.

The Company did not operate in the North American Unitary Products markets prior to the York acquisition.

Global Workplace Solutions increased primarily due to new and expanded contracts in North America and Europe, including Royal Dutch Shell plc, British Broadcasting Corporation, DHL International GmbH, Eastman Kodak Company, T-Mobile, and Intel Corporation.

Segment Income:

North America Service, North America Unitary Products and Rest of World increased primarily due to the impact of the York acquisition.

North America Systems increased primarily due to a higher gross profit percentage resulting from operational efficiencies associated with the Company s branch office redesign initiative and a favorable legal settlement associated with the recovery of previously incurred environmental costs ($7 million). The benefit from the legal settlement was substantially offset by other unfavorable commercial and legal settlements.

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Automotive Experience

	Net Sales for the Year Ended September 30,			Segment Income for the Year Ended September 30,		
(In millions)	2006	2005	Change	2006	2005	Change
North America	$ 8,041	$ 8,499	-5%	$ 188	$ 382	-51%
Europe	8,774	8,935	-2%	405	246	65%
Asia	1,459	1,399	4%	12	52	-77%
	$ 18,274	$ 18,833	-3%	$ 605	$ 680	-11%

Net Sales:

North America decreased slightly as higher volumes with Chrysler LLP and Hyundai Motor Co. were more than offset by volume reductions with Ford Motor Co., General Motors Corporation and Nissan Motor Co. and an unfavorable mix of production from light trucks to passenger cars.

Europe declined slightly as higher volumes across all major customer platforms were more than offset by the unfavorable impact of foreign currency translation ($300 million).

Asia increased primarily due to higher volumes with Honda Motor Co. in Japan, partially offset by volume reductions with Nissan Motor Co. in Japan, seating and interiors businesses in Korea and the unfavorable impact of foreign currency translation ($30 million).

Segment Income:

North America

Unfavorable vehicle volume and sales mix decreased segment income by $139 million as compared to the prior year.

Cost reduction programs, purchasing savings and other operational efficiencies contributed $253 million in operating improvements.

Operations were unfavorably impacted by customer vehicle program adjustments ($133 million), tooling and launch costs ($68 million), higher labor costs ($48 million) and fuel cost increases ($47 million).

Selling, General and Administrative (SG&A) expenses increased primarily due to the timing of customer engineering recoveries ($18 million), employee benefit related expenses ($12 million) and plant closure costs related to a customer closure of an assembly plant to which the Company supplied interior products ($8 million), partially offset by administrative efficiencies and cost reduction programs.

Europe

Cost reduction programs, purchasing savings and other operational efficiencies contributed $134 million in savings as compared to the prior period.

SG&A expenses increased $21 million, primarily due to information technology infrastructure expenses ($16 million) and net engineering expenses ($5 million).

Asia

The decrease in segment income is primarily due to lower volumes and product mix, start-up and engineering costs associated with new programs within Japan, Korea and Malaysia and unfavorable material costs.

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Power Solutions

(In millions)	Year Ended September 30, 2006	2005	Change
Net sales	$3,716	$2,928	27%
Segment income	459	345	33%

Net sales increased due to substantially higher unit shipments, primarily from the Delphi battery business acquisition, and the favorable impact of higher lead costs on pricing, partially offset by the unfavorable impact of foreign currency translation ($40 million). Unit sales increased 22% in North America from new account growth in the aftermarket and increased sales to General Motors Corporation related to the Delphi battery business acquisition, 17% in Europe from strong aftermarket demand and 114% in Asia from increased market share.

Segment income increased primarily due to the higher sales volumes and a favorable legal settlement associated with the recovery of previously incurred environmental costs ($33 million), partially offset by unfavorable commodity costs, primarily lead ($72 million).

Restructuring Costs

As part of its continuing efforts to reduce costs and improve the efficiency of its global operations, the Company committed to a restructuring plan in the third quarter of fiscal 2006 (2006 Plan) and recorded a $197 million restructuring charge. The 2006 Plan primarily included workforce reductions and plant consolidations in the automotive experience and building efficiency businesses. The automotive experience business related restructuring was focused on improving the profitability associated with the manufacturing and supply of instrument panels, headliners and other interior components in North America and increasing the efficiency of seating component operations in Europe. The charges associated with the building efficiency business mostly related to Europe where the Company launched a systems redesign initiative. Please refer to restructuring costs discussed earlier in Item 7 for additional details of the 2006 Plan.

In the second quarter of fiscal 2005, the Company executed a restructuring plan (2005 Plan) involving cost reduction actions and recorded a $210 million restructuring charge. These restructuring charges included workforce reductions of approximately 3,100 employees within automotive experience and power solutions and 800 employees in the building efficiency business. The charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. In addition, the 2005 Plan included eight plant closures within automotive experience and power solutions and four plant closures within building efficiency. The write-downs of the long-lived assets associated with the plant closures were determined using an undiscounted cash flow analysis. The automotive experience and power solutions actions were primarily concentrated in Europe, while the building efficiency restructuring actions involved activities in both North America and Europe.

Net Financing Charges

(In millions)	Year Ended September 30, 2006	2005	Change
Net financing charges	$273	$113	142%

Net financing charges increased primarily due to the financing associated with the York acquisition, partially offset by debt reduction from operating cash flows.

Provision for Income Taxes

The Company s base effective income tax rate for continuing operations for fiscal 2006 declined to 21.0% from 25.7% in fiscal 2005, primarily due to continuing global tax planning initiatives, increased income in certain non-U.S. jurisdictions with a rate of tax lower than the U.S. statutory tax rate and decreased income in higher tax jurisdictions, prior to certain discrete period items as outlined below.

The Company s effective tax rate for fiscal 2006 was further reduced as a result of a reversal of valuation allowances at certain Mexican and German subsidiaries of $32 million and $131 million, respectively, a $19 million discrete period tax

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benefit related to the third quarter 2006 restructuring charge using a blended statutory tax rate of 30.6%, a $10 million tax benefit related to a favorable tax audit resolution in a non-U.S. country, an $11 million tax benefit related to a change in tax status for subsidiaries in Hungary and the Netherlands and a $4 million tax benefit related to the disposition of an interest in a German joint venture, partially offset by $31 million of tax expense related to the repatriation of non-U.S. earnings.

The Company s base effective income tax rate for continuing operations for fiscal year 2005 was 25.7%. For the fiscal year ended September 30, 2005, the effective rate was impacted by an $81 million tax benefit due to a change in tax status of a French and a German subsidiary. This change in tax status for the German subsidiary resulted in a capital loss for tax purposes of $187 million that was utilized during fiscal 2005.

Valuation Allowance Adjustments

In the third quarter of fiscal 2006, the Company completed an analysis of its German operations and, based on cumulative income over a 36-month period, an assessment of expected future profitability in Germany and finalization of the 2006 Plan, determined that it was more likely than not that the tax benefits of certain operating loss and tax credit carryforwards in Germany would be utilized in the future. As such, the Company reversed $131 million attributable to these operating loss and tax credit carryforwards in the third quarter as a credit to income tax expense, net of remaining valuation allowances at certain German subsidiaries and tax reserve requirements.

Based on the Company s cumulative operating results through the six months ended March 31, 2006 and an assessment of expected future profitability in Mexico, the Company concluded that it was more likely than not that the tax benefits of its operating loss and tax credit carryforwards in Mexico would be utilized in the future. During the second quarter of fiscal 2006, the Company completed a tax reorganization in Mexico which will allow operating loss and tax credit carryforwards to be offset against the future taxable income of the reorganized entities. As such, in the second quarter of fiscal 2006 the Company reversed a valuation allowance of $32 million attributable to these operating loss and tax credit carryforwards as a credit to income tax expense.

In the second quarter of fiscal 2005, the Company s tax valuation allowance increased $28 million related to restructuring charges for which no tax benefits were recorded in certain countries given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in that country.

Uncertain Tax Positions

The Company is subject to income taxes in the U.S. and numerous non-U.S. jurisdictions. Significant judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company s business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities. Accruals for tax contingencies are provided for in accordance with the requirements of SFAS No. 5 Accounting for Contingencies.

The Company s effective tax rate was reduced in the third quarter of fiscal 2006 by a $10 million tax benefit related to a favorable tax audit resolution in a non-U.S. jurisdiction.

The Company s federal income tax returns and certain non-U.S. income tax returns for various fiscal years remain under various stages of audit by the Internal Revenue Service and respective non-U.S. tax authorities. Although the outcome of tax audits is always uncertain, management believes that it has appropriate support for the positions taken on its tax returns and that its annual tax provisions included amounts sufficient to pay assessments, if any, which may be proposed by the taxing authorities. At September 30, 2006, the Company had recorded a liability for its best estimate of the probable loss on certain of its tax positions, the majority of which is included in other noncurrent liabilities in the consolidated statement of financial position. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ.

Foreign Dividend Repatriation

In October 2004, the U.S. President signed the American Jobs Creation Act of 2004 (AJCA). The AJCA created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled non-U.S. operations. The deduction was subject to a number of limitations. During the quarter ended March 31, 2006, the Company completed its evaluation of its repatriation plans and approximately $674 million of non-U.S. earnings were designated for repatriation to the U.S. pursuant to the provisions of the AJCA. The

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increase in income tax liability related to the Company s AJCA initiatives totaled $42 million. The Company recorded $31 million of net income tax expense in the quarter ended March 31, 2006, as $11 million had been previously recorded by York prior to it becoming a subsidiary of the Company in accordance with York s approved repatriation plan.

Disposition of a Joint Venture

In the first quarter of fiscal 2006, the tax provision decreased due to a $4 million nonrecurring tax benefit related to a $9 million gain from the disposition of the Company s interest in a German joint venture.

Change in Tax Status of non-U.S. Subsidiaries

During the first quarter of fiscal 2006, the tax provision decreased as a result of an $11 million tax benefit realized by a change in tax status of an automotive experience subsidiary in Hungary and a building efficiency subsidiary in the Netherlands. In fiscal 2005, the tax provision decreased as a result of a $12 million and $69 million tax benefit from a change in tax status of subsidiaries in France and Germany, respectively.

The change in tax status resulted from a voluntary tax election that produced a deemed liquidation for U.S. federal income tax purposes. The Company received a tax benefit in the U.S. for the loss from the decrease in value from the original tax basis of these investments. This election changed the tax status of the respective subsidiaries from controlled non-U.S. corporations (i.e., taxable entities) to branches (i.e., flow through entities similar to a partnership) for U.S. federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109.

Discontinued Operations

The Company utilized an effective tax rate for discontinued operations of approximately 38%, 39% and 35% for Bristol Compressors, Johnson Controls World Services, Inc. and its engine electronic business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences.

Minority Interests in Net Earnings of Subsidiaries

Minority interests in net earnings of subsidiaries for fiscal 2006 was $42 million compared with $41 million for fiscal 2005 primarily due to the acquisition of a minority interest in York s China operations in December 2005 and higher earnings at certain European and Asian automotive experience joint ventures, partially offset by lower earnings at certain automotive experience and building efficiency subsidiaries in North America.

Net Income

Net income for fiscal 2006 was $1.0 billion, 13% above the prior year s $909 million, primarily due to the impact from the York and Delphi acquisitions and a reduced effective income tax rate on continuing operations, partially offset by lower North America automobile sales and increased interest expense resulting from financing associated with the York acquisition. Fiscal 2006 diluted earnings per share from continuing operations was $1.75, a 35% increase from 2005 of $1.30.

Fiscal Year 2008 Outlook

Net Sales

In fiscal 2008, the Company anticipates that net sales will grow to approximately $38 billion, an increase of 10% from 2007 net sales. The forecast assumes a Euro to U.S. dollar exchange rate of $1.35, which would be slightly higher than the average exchange rate of $1.33 in fiscal 2007.

The Company expects building efficiency net sales to increase approximately 15% from the prior year, reflecting a strong backlog, expected continued revenue synergies, expected emerging market growth and expected generally strong end markets. Building efficiency s backlog relates to its control systems and service activity. At September 30, 2007, the unearned backlog was $4.2 billion, compared to $3.7 billion at September 30, 2006, primarily due to continued market share gains.

The Company expects automotive experience net sales to be level with the prior year. Sales in North America and Europe are expected to be flat, with the expected benefit of new programs largely offset by unfavorable vehicle mix and lower production across several large OEM s. Robust sales growth in Asia, including China, is primarily associated with the Company s unconsolidated joint ventures.

At September 30, 2007, automotive experience had a backlog of net new incremental business to be executed within the next three fiscal years of $3.9 billion, $0.9 billion of which relates to fiscal 2008. The three year backlog includes approximately $1.0 billion related to unconsolidated joint ventures. The backlog is generally subject to a number of risks and uncertainties, such as related vehicle production volumes and the timing of production launches.

The Company expects power solutions net sales to increase approximately 40% from the prior year, primarily due to the pass-through of higher lead prices. Excluding the year-over-year impact of lead pricing, sales are expected to increase approximately 10%, reflecting expected new contract wins, existing customer growth and benefits of global capacity expansion.

Segment Income

The Company anticipates that the business segment income margin percentage in fiscal 2008 will increase from fiscal 2007. Underlying margins (i.e., excluding lead impact in the power solutions segment) are expected to increase in all three businesses.

In fiscal 2008, the Company expects continued volatility in lead prices, increases in foam chemical, resin and fuel costs due to rising oil prices, and relatively stable copper and steel costs.

The Company expects building efficiency s segment income margin percentage for fiscal 2008 to increase from the prior year, reflecting the impact of the business expansion within emerging markets. The Company expects the business to continue to benefit from multiple initiatives, including deployment of best business practices, manufacturing footprint rationalization actions and supply chain management.

The Company expects automotive experience s segment income margin percentage for 2008 to increase from the prior year. The Company anticipates the increase to be driven by an expected sustained improvement in North American profitability, expected continued strong operating performance in Europe and expected improved results in Asia despite ongoing investments in the region. Automotive experience has supply agreements with certain of its customers that provide for annual sales price reductions and, in some instances, for the recovery of material cost increases. The business expects to continue its historical trend of being able to significantly offset any sales price changes with cost reductions from design changes and productivity improvements and through similar programs with its own suppliers.

The Company expects power solutions segment income margin percentage to decline from 2007 due to the dilutive impact of significantly higher projected lead prices. Excluding the lead price impact, segment margin is anticipated to be level in 2008 versus the prior year. The Company anticipates mitigating the impact of lead cost increases through increased pricing and hedging programs. The Company expects that benefits from continued operational excellence will be offset in part due to increasing investments in hybrid technology.

Other

The Company expects the base effective income tax rate for fiscal 2008 to be 21.0%, consistent with fiscal 2007.

GOODWILL AND OTHER INVESTMENTS

Goodwill at September 30, 2007 was $6.1 billion, $221 million higher than the prior year. The increase was primarily due to the impact of foreign currency translation adjustments and final York purchase accounting adjustments during the first quarter of fiscal 2007.

Investments in partially-owned affiliates at September 30, 2007 were $795 million, $332 million more than the prior year. The increase was primarily due to the Company s September 2007 investment in US Airconditioning Distributors, Inc. and several new automotive experience and power solutions joint ventures in Asia.

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LIQUIDITY AND CAPITAL RESOURCES

Working Capital

(In millions)	September 30, 2007	September 30, 2006	Change
Working capital	$ 1,441	$ 1,357	6%
Accounts receivable	6,600	5,697	16%
Inventories	1,968	1,731	14%
Accounts payable	5,365	4,216	27%

Working capital is defined as current assets less current liabilities, excluding cash, short-term debt, the current portion of long-term debt and net assets of discontinued operations.

The increase in working capital is primarily due to higher accounts receivable ($903 million) resulting from the sales growth experienced in fiscal 2007, higher inventories ($237 million) mainly due to the impact of higher lead costs and higher other current assets ($87 million) resulting from higher derivative assets and tax assets, partially offset by higher accounts payable ($1.1 billion) due to business growth and payment timing.

Days sales in accounts receivable at September 30, 2007 increased to 58 from 57 in the prior year. There has been no significant deterioration in the credit quality of the Company s receivables or material changes in revenue recognition methods.

Inventory turnover at September 30, 2007 decreased to 10 from 16 in the prior year for raw material and work-in-process and to 24 from 29 in the prior year for finished goods due to building efficiency comprising a greater percentage of total inventory given their higher sales volumes and the impact of increased lead costs on power solutions inventories.

Days payables at September 30, 2007 increased to 71 days from 57 days in the prior year due to the timing of payments and the Company s standardization of global payment terms.

Cash Flow

	Year Ended September 30,	
(In millions)	2007	2006
Cash provided by operating activities	$1,913	$1,417
Cash used by investing activities	1,051	3,076
Cash provided (used) by financing activities	(542)	1,741
Capital expenditures	828	711

The increase in cash provided by operating activities primarily reflects increased net income ($224 million), net changes in deferred income taxes ($341 million) and favorable working capital changes in accounts payable and accrued liabilities, partially offset by restructuring reserve usage ($220 million) and unfavorable working capital changes in receivables, inventories and other current assets.

The decrease in cash used in investing activities primarily relates to the York acquisition in the prior fiscal year.

Cash used in financing activities during the current fiscal year was primarily used for repayment of debt obligations. In fiscal 2006, cash provided by financing activities was primarily related to the York acquisition financing.

Consistent with the prior year, the majority of the fiscal 2007 capital expenditures were associated with the automotive experience and power solutions businesses and were related to investments in launches of new business platforms and cost reduction projects. Management expects fiscal 2008 capital expenditures to decrease slightly with a reinvestment ratio, which is calculated as capital expenditures divided by depreciation expense, of 1 to 1, reflecting investment in emerging automotive experience and building efficiency markets offset by normalized spending for power solutions.

Long-Lived Assets

The Company has certain subsidiaries, mainly located in Brazil, Italy, the United Kingdom and the U.S., which have generated operating and capital 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 in accordance with SFAS No. 109. SFAS No. 109 requires the Company to record a valuation allowance for each legal entity or consolidated group based on the tax rules in the applicable jurisdiction and evaluate both positive and negative historical evidences as well as expected future events.

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 s long-lived asset impairment analyses indicate that assets are not impaired based on SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. At September 30, 2007, the Company does not have any material assets whose recovery is at risk in accordance with the provisions of SFAS No. 144.

Capitalization

(In millions)	September 30, 2007	September 30, 2006	Change
Short-term debt	$ 264	$ 209	26%
Long-term debt	4,154	4,534	-8%
Shareholders equity	8,907	7,355	21%
Total capitalization	$ 13,325	$ 12,098	10%
Total debt as a % of total capitalization	33.2%	39.2%	

In December 2006, the Company entered into a five-year, $2.0 billion revolving credit facility which expires in December 2011. This facility replaced a five-year $1.6 billion revolving credit facility that would have expired in October 2010 and serves as the commercial paper backup facility. There were no draws on the committed credit line during the year ended September 30, 2007.

In December 2006 the Company entered into a 12 billion yen ($104 million), three year, floating rate loan. The net proceeds of the bank loan were used to repay unsecured commercial paper obligations.

In November 2006 the Company issued commercial paper to repay a $350 million note that matured.

The Company also selectively makes use of short-term money market loans in both U.S. dollars and Euros. The Company estimates that, as of September 30, 2007, it could borrow up to $1 billion at its current debt ratings in money market loans.

The Company is in compliance with all covenants and other requirements set forth in its credit agreements and indentures. None of the Company s debt agreements requires accelerated repayment in the event of a decrease in credit ratings. Currently, the Company believes it has ample liquidity and full access to the capital markets to support business growth and future acquisitions. The Company believes its capital resources and liquidity position at September 30, 2007 are adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, debt maturities and any potential acquisitions in fiscal 2008 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required.

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A summary of the Company s significant contractual obligations as of September 30, 2007 is as follows:

Contractual Obligations	Total	2008	2009-2010	2011-2012	2013 and Beyond
Long-term debt (including capital lease obligations)*	$ 4,154	$ 899	$ 399	$ 808	$ 2,048
Interest on long-term debt (including capital lease obligations)*	882	187	324	250	121
Operating leases	786	209	293	146	138
Purchase obligations	6,371	2,077	1,941	1,514	839(1)
Pension and postretirement contributions	518	125	79	85	229
Total contractual cash obligations	$ 12,711	$ 3,497	$ 3,036	$ 2,803	$ 3,375

* See Capitalization for additional information related to the Company s long-term debt.

(1) Amount excludes certain minimum purchase requirements for indefinite future years beyond 2013. These purchase requirements are contained in a contract under which the Company could have liabilities to the other party upon the contract s

termination. These liabilities, if incurred, could be material to the Company s consolidated financial position, results of operations or cash flows.

CRITICAL ACCOUNTING ESTIMATES

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). This requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. The following policies are considered by management to be the most critical in understanding the judgments that are involved in the preparation of the Company s consolidated financial statements and the uncertainties that could impact the Company s results of operations, financial position and cash flows.

Revenue Recognition

The Company recognizes revenue from long-term systems installation contracts of the building efficiency business over the contractual period under the percentage-of-completion (POC) method of accounting. Under this method, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at the completion of the contract. Recognized revenues that will not be billed under the terms of the contract until a later date are recorded in unbilled accounts receivable. Likewise, contracts where billings to date have exceeded recognized revenues are recorded in other current liabilities. Changes to the original estimates may be required during the life of the contract and such estimates are reviewed monthly. Sales and gross profit are adjusted prospectively for revisions in estimated total contract costs and contract values. Estimated losses are recorded when identified. Claims against customers are recognized as revenue upon settlement. The use of the POC method of accounting involves considerable use of estimates in determining revenues, costs and profits and in assigning the amounts to accounting periods. The reviews have not resulted in adjustments that were significant to the Company s results of operations. The Company continually evaluates all of the issues related to the assumptions, risks and uncertainties inherent with the application of the POC method of accounting.

The building efficiency business enters into extended warranties and long-term service and maintenance agreements with certain customers. For these arrangements, revenue is recognized on a straight-line basis over the respective contract term.

The Company s building efficiency business also sells certain HVAC products and services in bundled arrangements, where multiple products and/or services are involved. In accordance with Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, the Company divides bundled arrangements into separate deliverables and revenue is allocated to each deliverable based on the relative fair value of all elements or the fair value of undelivered elements.

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In all other cases, the Company recognizes revenue at the time products are shipped and title passes to the customer or as services are performed.

Goodwill and Other Intangible Assets

In conformity with U.S. GAAP, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs impairment reviews for its reporting units, which have been determined to be the Company s reportable segments, using a fair-value method based on management s judgments and assumptions. The fair value represents the amount at which a reporting unit could be bought or sold in a current transaction between willing parties on an arms-length basis. In estimating the fair value, the Company uses multiples of earnings based on the average of historical, published multiples of earnings of comparable entities with similar operations and economic characteristics. The estimated fair value is then compared with the carrying amount of the operating unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. The impairment testing performed by the Company at September 30, 2007, indicated that the estimated fair value of each reporting unit exceeded its corresponding carrying amount, including recorded goodwill and as such, no impairment existed at that time. Other intangible assets with definite lives continue to be amortized over their estimated useful lives and are subject to impairment testing if events or changes in circumstances indicate that the asset might be impaired. Indefinite lived intangible assets are also subject to impairment testing on at least an annual basis. A considerable amount of management judgment and assumptions are required in performing the impairment tests, principally in determining the fair value of each operating unit. While the Company believes its judgments and assumptions were reasonable, different assumptions could change the estimated fair values and, therefore, impairment charges could be required.

Employee Benefit Plans

The Company provides a range of benefits to its employees and retired employees, including pensions and postretirement health care. Plan assets and obligations are recorded annually based on the Company s measurement date utilizing various actuarial assumptions such as discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates as of that date. Measurements of net periodic benefit cost are based on the assumptions used for the previous year-end measurements of assets and obligations. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when appropriate. As required by U.S. GAAP, the effects of the modifications are recorded currently or amortized over future periods.

In the fourth quarter of fiscal 2007, the Company adopted all of the provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires that companies recognize in its statement of financial position a liability for defined benefit pension and postretirement plans that are underfunded or unfunded, or an asset for defined benefit pension and postretirement benefit plans that are overfunded. SFAS No. 158 also requires that companies measure the benefit obligations and fair value of plan assets that determine a postretirement benefit plan s funded status as of the date of the employer s fiscal year-end by no later than their fiscal year ending after December 15, 2008. Adjustments relating to this change in measurement date for the period between the early measurement date and the end of the year are made to retained earnings, net of tax. In connection with the Company s adoption of SFAS No. 158, at September 30, 2007, the Company recorded an asset of $117 million for its defined benefit pension plans that are in overfunded positions and a liability of $629 million for its defined benefit pension plans that are in underfunded positions. In addition, a liability of $280 million was recorded for the Company s health and other postretirement plans that were in underfunded positions at September 30, 2007. The Company also early adopted the change in measurement date provisions at September 30, 2007 for its U.S. pension and health and other postretirement plans, which resulted in a $9 million adjustment, net of tax, to retained earnings.

The discount rate used by the Company is based on the interest rate of non-callable high-quality corporate bonds, with appropriate consideration of the Company s pension plans participants demographics and benefit payment terms. At both September 30, 2007 and July 31, 2006, the Company s discount rate on U.S. plans was 6.50%.

In estimating the expected return on plan assets, the Company considers the historical returns on plan assets, adjusted for forward-looking considerations, inflation assumptions and the impact of the active management of the plans

invested assets. Reflecting the relatively long-term nature of the plans obligations, approximately 60% of the plans assets were invested in equities, with the balance primarily invested in fixed income instruments. At September 30, 2007 the Company increased its expected long-term return on U.S. plan assets from 8.25% to 8.50%.

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The Company uses a market-related value of assets that recognizes the difference between the expected return and the actual return on plan assets over a three-year period. As of September 30, 2007, the Company had approximately $83 million of unrecognized asset losses associated with its U.S. pension plans, which will be recognized in the calculation of the market-related value of assets and subject to amortization in future periods.
Based on information provided by its independent actuaries and other relevant sources, the Company believes that the assumptions used are reasonable; however, changes in these assumptions could impact the Company s financial position, results of operations or cash flows.

Product Warranties

The Company offers warranties to its customers depending upon the specific product and terms of the customer purchase agreement. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate of future warranty-related costs based on actual historical return rates. At September 30, 2007, the Company had recorded $150 million of warranty reserves based on an analysis of return rates and other factors. While the Company s warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could differ significantly from those estimates.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company records a valuation allowance that primarily represents non-U.S. operating and other loss carryforwards for which utilization is uncertain. Management judgment is required in determining the Company s provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against the Company s net deferred tax assets. In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted as appropriate based upon the actual results as compared to those forecasted at the beginning of the fiscal year. In determining the need for a valuation allowance, the historical and projected financial performance of the operation recording the net deferred tax asset is considered along with any other pertinent information. Since future financial results may differ from previous estimates, periodic adjustments to the Company s valuation allowance may be necessary. At September 30, 2007, the Company had a valuation allowance of $326 million, of which $206 million relates to net operating loss carryforwards primarily in Brazil, Italy, and the United Kingdom, for which sustainable taxable income has not been demonstrated; $54 million relates to net capital loss carryforwards, primarily in the U.S., for which future capital gains are not assured; and $66 million of other deferred tax assets. The Company does not provide additional U.S. income taxes on undistributed earnings of consolidated non-U.S. subsidiaries included in shareholders equity. Such earnings could become taxable upon the sale or liquidation of these non-U.S. subsidiaries or upon dividend repatriation. The Company s intent is for such earnings to be reinvested by the subsidiaries or to be repatriated only when it would be tax effective through the utilization of foreign tax credits.

NEW ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment to FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 will be effective for the Company beginning in fiscal 2009. The Company is assessing the potential impact that the adoption of SFAS No. 159 will have on its consolidated financial condition and results of operations.
In September 2006, the FASB issued SFAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R), which requires that the Company recognize the overfunded or underfunded status of its defined benefit and retiree medical plans as an asset

or liability in the balance sheet, with changes in the funded status recognized through accumulated other comprehensive income in the year in which they occur. Additionally, SFAS No. 158 requires the Company to measure the funded status as of the date of its fiscal

year-end. See Item 8, Note 14 for the impact of the Company s adoption of SFAS No. 158 in the fourth quarter of fiscal 2007.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. SFAS No. 157 will be effective for the Company beginning in fiscal 2008. The Company is assessing the potential impact that the adoption of SFAS No. 157 will have on its consolidated financial condition or results of operations.

In June 2006, the FASB issued FASB Interpretation Number (FIN) 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 allows recognition of only those tax benefits that satisfy a greater than 50% probability threshold. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the Company beginning October 1, 2007. The Company has determined that the adoption of FIN 48 will not be material to the Company s consolidated financial position.

RISK MANAGEMENT

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities, compensation expense and interest rates. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which strictly prohibit the use of financial instruments for speculative purposes. At the inception of the hedge, the Company assesses the effectiveness of the hedge instrument and designates the hedge instrument as either (1) a hedge of a recognized asset or liability or of a recognized firm commitment (a fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to an unrecognized asset or liability (a cash flow hedge) or (3) a hedge of a net investment in a non-U.S. operation (a net investment hedge). The Company performs hedge effectiveness testing on an ongoing basis depending on the type of hedging instrument used.

For all foreign currency derivative instruments designated as cash flow hedges, retrospective effectiveness is tested on a monthly basis using a cumulative dollar offset test. The fair value of the hedged exposures and the fair value of the hedge instruments are revalued and the ratio of the cumulative sum of the periodic changes in the value of the hedge instruments to the cumulative sum of the periodic changes in the value of the hedge is calculated. The hedge is deemed as highly effective if the ratio is between 80% and 125%. For commodity derivative contracts designated as cash flow hedges, effectiveness is tested using a regression calculation. Ineffectiveness is minimal as the Company aligns most of the critical terms of its derivatives with the supply contracts.

For net investment hedges, the Company assesses its net investment positions in the non-U.S. operations and compares it with the outstanding net investment hedges on a quarterly basis. The hedge is deemed effective if the aggregate outstanding principal of the hedge instruments designated as the net investment hedge in a non-U.S. operation does not exceed the Company s net investment positions in the respective non-U.S. operation.

A discussion of the Company s accounting policies for derivative financial instruments is included in Note 1, Summary of Significant Accounting Policies, in the notes to consolidated financial statements, and further disclosure relating to financial instruments is included in Note 11 to the consolidated financial statements.

Foreign Exchange

The Company has manufacturing, sales and distribution facilities around the world and thus makes investments and enters into transactions denominated in various foreign currencies. In order to maintain strict control and achieve the benefits of the Company s global diversification, foreign exchange exposures for each currency are netted internally so that only its net foreign exchange exposures are, as appropriate, hedged with financial instruments.

The Company hedges 70% to 90% of the nominal amount of each of its known foreign exchange transactional exposures. The Company primarily enters into foreign currency exchange contracts to reduce the earnings and cash flow impact of the variation of non-functional currency denominated receivables and payables. Gains and losses

resulting from hedging instruments offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities

of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Realized and unrealized gains and losses on these contracts are recognized in the same period as gains and losses on the hedged items. The Company also selectively hedges anticipated transactions that are subject to foreign exchange exposure, primarily with foreign currency exchange contracts, which are designated as cash flow hedges in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137, SFAS No. 138, and SFAS No. 149.

The Company selectively finances its foreign operations with local, non-U.S. dollar debt. In those instances, the foreign currency denominated debt serves as a natural hedge of the foreign operations net asset positions. The Company has also entered into foreign currency denominated debt obligations and cross-currency interest rate swaps to selectively hedge portions of its net investments in Europe and Japan. The currency effects of the debt obligations and swaps are reflected in the accumulated other comprehensive income account within shareholders equity where they offset gains and losses recorded on the net investments in Europe and Japan.

Sensitivity Analysis

The following table indicates the total U.S. dollar equivalents of net foreign exchange contracts (hedging transactional exposure) and non-U.S. dollar denominated cash, debt and cross-currency interest rate swaps (hedging translation exposure) outstanding by currency and the corresponding impact on the value of these instruments assuming a 10% appreciation/depreciation of the U.S. dollar relative to all other currencies on September 30, 2007.

As previously noted, the Company s policy prohibits the trading of financial instruments for speculative purposes. It is important to note that gains and losses indicated in the sensitivity analysis would be offset by gains and losses on the underlying receivables, payables and net investments in non-U.S. subsidiaries described above (in millions, in U.S. dollar equivalent):

	September 30, 2007				
	Non-U.S. dollar Financial Instruments Designated as Hedges of:				
	Transactional	Translation	Net Amounts of	Foreign Exchange Gain/(Loss) from:	
	Foreign Exposure Long/ (Short)	Foreign Exposure Long/ (Short)	Instruments Long/ (Short)	10% Appreciation of U.S. Dollar	10% Depreciation of U.S. Dollar
British pound	$ (49)	$ 113	$ 64	$ (6)	$ 6
Canadian dollar	(103)	132	29	(3)	3
Chinese renminbi		91	91	(9)	9
Czech koruna	131	79	210	(21)	21
Euro	(295)	(1,115)	(1,410)	141	(141)
Japanese yen	129	(482)	(353)	35	(35)
Mexican peso	166	10	176	(18)	18
Polish zloty	(4)	(82)	(86)	9	(9)
Slovenska koruna	134	(49)	85	(9)	9
South Korean won	32		32	(3)	3
Swiss franc	(2)	100	98	(10)	10
Other	(4)	53	49	(5)	5
Total	$ 135	$ (1,150)	$ (1,015)	$ 101	$ (101)

Interest Rates

The Company s earnings exposure related to adverse movements in interest rates is primarily derived from outstanding floating rate debt instruments that are indexed to short-term market rates. The Company will use interest rate swaps to offset its exposure to interest rate movements. In accordance with SFAS No. 133, the existing swap qualifies and is designated as a fair value hedge. A 10% increase or decrease in the average cost of the Company s variable rate debt, including outstanding swaps, would result in a change in pre-tax interest expense of approximately $7 million.

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Commodities

The Company uses commodity contracts in the financial derivatives market in cases where commodity price risk cannot be naturally offset or hedged through supply base fixed price contracts. Commodity risks are systematically managed pursuant to policy guidelines. As a cash flow hedge, gains and losses resulting from the hedging instruments offset the gains or losses upon purchase of the underlying commodities that will be used in the business. The maturities of the commodity contracts coincide with the expected purchase of the commodities.

ENVIRONMENTAL, HEALTH AND SAFETY AND OTHER MATTERS

The Company s global operations are governed by laws addressing protection of the environment (Environmental Laws) and worker safety and health (Worker Safety Laws). Under various circumstances, these laws impose civil and criminal penalties and fines, as well as injunctive and remedial relief, for noncompliance and require remediation at sites where Company-related substances have been released into the environment.

The Company has expended substantial resources globally, both financial and managerial, to comply with applicable Environmental Laws and Worker Safety Laws, and to protect the environment and workers. The Company believes it is in substantial compliance with such laws and maintains procedures designed to foster and ensure compliance. However, the Company has been, and in the future may become, the subject of formal or informal enforcement actions or proceedings regarding noncompliance with such laws or the remediation of Company-related substances released into the environment. Such matters typically are resolved by negotiation with regulatory authorities resulting in commitments to compliance, abatement or remediation programs and in some cases payment of penalties. Historically, neither such commitments nor penalties imposed on the Company have been material.

Environmental considerations are a part of all significant capital expenditure decisions; however, expenditures in fiscal 2007 related solely to environmental compliance were not material. At September 30, 2007 and 2006, the Company recorded environmental liabilities of $27 million and $34 million, respectively. A charge to income is recorded when it is probable that a liability has been incurred and the cost can be reasonably estimated. The Company s environmental liabilities do not take into consideration any possible recoveries of future insurance proceeds. Because of the uncertainties associated with environmental remediation activities at sites where the Company may be potentially liable, future expenses to remediate identified sites could be considerably higher than the accrued liability. However, while neither the timing nor the amount of ultimate costs associated with known environmental remediation matters can be determined at this time, the Company does not expect that these matters will have a material adverse effect on its financial position, results of operations or cash flows. In addition, the Company has identified asset retirement obligations for environmental matters that are expected to be addressed at the retirement, disposal, removal or abandonment of existing owned facilities, primarily in the power solutions business. At September 30, 2007 and 2006, the Company recorded conditional asset retirement obligations of $81 million and $77 million, respectively.

Additionally, the Company is involved in a number of product liability and various other suits incident to the operation of its businesses. Insurance coverages are maintained and estimated costs are recorded for claims and suits of this nature. It is management s opinion that none of these will have a materially adverse effect on the Company s financial position, results of operations or cash flows (see Note 18 to the consolidated financial statements). Costs related to such matters were not material to the periods presented.

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QUARTERLY FINANCIAL DATA