

JOHNSON CONTROLS INC

FORM 10-K (Annual Report)

Filed 12/5/2006 For Period Ending 9/30/2006

Address	5757 N GREEN BAY AVENUE P O BOX 591 MILWAUKEE, Wisconsin 53201
Telephone	414-524-1200
CIK	0000053669
Industry	Auto & Truck Parts
Sector	Consumer Cyclical
Fiscal Year	09/30

Powered By **EDGAR**Online

<http://www.edgar-online.com/>

© Copyright 2006. All Rights Reserved.

Distribution and use of this document restricted under EDGAR Online's Terms of Use.

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

FORM 10-K

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

For the Annual Period Ended September 30, 2006

OR

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

For The Transition Period From _____ To _____

Commission File Number 1-5097

JOHNSON CONTROLS, INC.

(Exact name of registrant as specified in its charter)

Wisconsin

(State of Incorporation)

39-0380010

(I.R.S. Employer Identification No.)

5757 North Green Bay Avenue

P.O. Box 591

Milwaukee, Wisconsin

(Address of principal executive offices)

53201

(Zip Code)

Registrant's telephone number, including area code:

(414) 524-1200

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, \$.04-1/6 par value

Name of Each Exchange on Which Registered

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the 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 ☒ No ☐

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

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

Indicate by check mark 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 ☐ No ☒

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 ☒

Accelerated filer ☐

Non-accelerated filer ☐

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

The aggregate market value of the registrant's stock held by non-affiliates of the registrant on March 31, 2006 was approximately \$14.8 billion.

195,787,050 shares of the registrant's Common Stock, par value \$0.04 1/6 per share, were outstanding on October 31, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference portions of the Proxy Statement dated and to be filed with the Securities and Exchange Commission on December 6, 2006.

JOHNSON CONTROLS, INC.
Index to Annual Report on Form 10-K
Year Ended September 30, 2006

	<u>Page</u>
CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION	1
PART I.	
ITEM 1. BUSINESS	1
ITEM 1A. RISK FACTORS	6
ITEM 1B. UNRESOLVED STAFF COMMENTS	10
ITEM 2. PROPERTIES	10
ITEM 3. LEGAL PROCEEDINGS	13
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	15
EXECUTIVE OFFICERS OF THE REGISTRANT	15
PART II.	
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	17
ITEM 6. SELECTED FINANCIAL DATA	18
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	20
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	42
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	43
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	88
ITEM 9A. CONTROLS AND PROCEDURES	88
ITEM 9B. OTHER INFORMATION	89
PART III.	
ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT	90
ITEM 11. EXECUTIVE COMPENSATION	90
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	90
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	90
ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES	90
PART IV.	
ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES	91
SIGNATURES	92
INDEX TO EXHIBITS	93
AMENDED AND RESTATED CREDIT AGREEMENT	
1992 STOCK OPTION PLAN	
DEFERRED COMPENSATION PLAN	
DIRECTOR SHARE UNIT PLAN	
2000 STOCK OPTION PLAN	
FORM OF RESTRICTED STOCK AWARD AGREEMENT FOR 2001 RESTRICTED STOCK PLAN	
EXECUTIVE DEFERRED COMPENSATION PLAN	
2003 STOCK PLAN FOR OUTSIDE DIRECTORS	
LETTER AGREEMENT	
RETIREMENT RESTORATION PLAN	
SUMMARY OF NON-EMPLOYEE DIRECTOR COMPENSATION	
FORM OF RESTRICTED STOCK AWARD AGREEMENT FOR 2001 RESTRICTED STOCK PLAN	
FORM OF STOCK OPTION AWARD AGREEMENT FOR 2000 STOCK OPTION PLAN	
SUBSIDIARIES OF THE REGISTRANT	
CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	
SECTION 302 CERTIFICATION OF CEO	
SECTION 302 CERTIFICATION OF CFO	
SECTION 906 CERTIFICATIONS OF CEO AND CFO	

CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

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

We have made forward-looking statements in this document pertaining to our financial results for future years that are based on preliminary data and are subject to risks and uncertainties. All statements other than statements of historical fact are statements that are or could be deemed forward-looking statements, including information concerning possible or assumed future risks. For those statements, we caution that numerous important factors as described in Item 1A of this report could affect our actual results and could cause our actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

PART I

ITEM 1 BUSINESS

General Development of Business

Johnson Controls is a Wisconsin corporation organized in 1885. Its principal office is located at 5757 North Green Bay Avenue, P.O. Box 591, Milwaukee, Wisconsin 53201. From 1885 through 1978, the Company’s operations were predominantly in the building efficiency business. Since 1978, the Company’s operations have been diversified through acquisitions and internal growth. In December 2005, the Company significantly expanded the building efficiency business with the acquisition of York International Corporation (York), a global supplier of heating, ventilation, and air-conditioning (HVAC) mechanical equipment and services. The Company operates in three primary businesses: building efficiency, automotive experience, and power solutions.

The building efficiency business is a global market leader in designing, producing, marketing and installing HVAC equipment and building control systems that monitor, automate and integrate critical building operating equipment and conditions. In addition, the building efficiency business provides technical and facility management services, including comfort, energy and security management for the non-residential buildings market. The business’s installed systems integrate the management and operation of the building control systems such as temperature, ventilation, humidity, fire-safety and security. The business’s technical and facility management services provide a complete suite of integrated solutions to improve building operations and maintenance.

In 1985, the Company entered the automotive seating market through the acquisition of Hoover Universal, Inc. During the late 1990’s, the Company expanded into additional interior systems and geographic markets. The Company’s automotive seating and interior systems business operates under the name automotive experience, and the Company believes it is among the world’s largest automotive suppliers. Automotive experience provides seating, instrument panel, overhead, floor console and door systems to more than 35 million vehicles annually.

In 1978, the Company entered the North American battery market through the acquisition of Globe-Union, Inc. and the Company has grown in this market through internal growth and strategic acquisitions. The Company’s power solutions business services both automotive original equipment manufacturers and the general vehicle battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise. The Company produces more than 110 million lead-acid batteries annually, and offers nickel-metal-hydride and lithium-ion battery technology 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 the standard. The Company’s ten

Table of Contents

reportable segments are presented in the context of its three primary businesses: building efficiency, automotive experience and power solutions.

Refer to Note 18, “Segment Information,” of the notes to the consolidated financial statements in Item 8 of this report for financial information about business segments.

For purposes of the following discussion of the Company’s businesses, the three automotive experience segments and the five building efficiency 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 the 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 in more than 125 countries. Approximately 75% of 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 cyclicalities. The remaining 25% of revenues is associated 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% originate from its service offerings. In fiscal year 2006, building efficiency sales accounted for 32% 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 the largest global supplier 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 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, workplace solutions 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 self-performs tasks related to the comfort and reliability of the facility, and manages the subcontractors for functions like foodservice and landscaping. Through its 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 and operates approximately 110 wholly- and majority-owned manufacturing or assembly plants in 28 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 clusters, information displays and body controllers; overhead systems, including headliners and electronic convenience features; floor consoles; and door systems. In fiscal year 2006, automotive experience sales accounted for 57% of the Company’s consolidated net sales.

Table of Contents

The business operates assembly plants that supply automotive manufacturers 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.

The business has substantially grown its interior systems capabilities through internal growth aided by acquisitions. In fiscal year 2002, the business expanded its capabilities in vehicle electronics with its acquisition of the automotive electronics business of France-based Sagem SA. In fiscal year 2003, the Company acquired Borg Instruments AG, an automotive electronics company with headquarters in Germany.

Power solutions

Power solutions services both automotive original equipment vehicle manufacturers and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise. The Company is the largest automotive battery manufacturer in the world, producing more than 110 million lead-acid batteries annually in approximately 60 manufacturing or assembly plants in 9 countries. Investments in new product and process technology have expanded product offerings to nickel-metal-hydride and lithium-ion battery technology to power hybrid vehicles.

Sales of automotive batteries generated 11% of the Company’s fiscal year 2006 consolidated net sales. In fiscal year 2002, power solutions expanded its battery operations into the European market through the acquisition of the German automotive battery manufacturer Hoppecke Automotive GmbH and Co. KG. In fiscal year 2003, the Company continued its expansion into the European market with its acquisition of VARTA Automotive GmbH and the 80% majority ownership in VB Autobatterie GmbH (collectively “VARTA”), a major European automotive battery manufacturer headquartered in Germany. In fiscal year 2004, the Company acquired the remaining 51% interest in its Latin American joint venture with Grupo IMSA, S.A. de C. V. In fiscal year 2005, the Company acquired Delphi Corporation’s global battery business and received a global long-term contract to supply General Motors Corporation with original equipment and original equipment service batteries. The acquisitions support the Company’s growth strategies and provide new opportunities to strengthen the Company’s global leadership position in the automotive battery industry. 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”).

Major Customers and Competition

As described previously, the Company is a major supplier to the automotive industry. Sales from all three businesses to its major customers, as a percentage of consolidated net sales, were as follows for the most recent fiscal years:

Customer	2006	2005	2004
General Motors Corporation	11%	14%	14%
DaimlerChrysler AG	11%	11%	11%
Ford Motor Company	10%	11%	14%

In fiscal year 2006, approximately 40% of the Company’s sales to these manufacturers originated in the U.S., 43% originated in Europe and 17% originated in other foreign markets. Because of the importance of new vehicle sales of major automotive manufacturers to its operations, the Company is affected by general business conditions in this industry. Sales to additional automakers in fiscal year 2006 that accounted for more than 5% of the Company’s consolidated net sales included Nissan Motor Co., Ltd. and Volkswagen AG. The Company is also a major supplier to Toyota Motor Corporation through wholly owned facilities and unconsolidated joint ventures.

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. Competition for contracts includes 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 is highly fragmented, with no one company being dominant. Sales of these 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 manufacturers 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

Approximately 80% of automotive battery sales worldwide in fiscal year 2006 were to the automotive replacement market, with the remaining sales to the original equipment market. 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 primarily competes in the battery market with Exide Technologies, GS Yuasa Corporation, East Penn Manufacturing Company and Fiamm Group.

Backlog

At September 30, 2006, the Company's automotive experience backlog of net new incremental business to be executed within the next three fiscal years was approximately \$3.5 billion, \$1.0 billion of which relates to fiscal year 2007. The backlog as of September 30, 2005 was approximately \$3.3 billion, \$1.2 billion which related to fiscal year 2006. The decrease in the subsequent year backlog is primarily due to lower vehicle production volumes in North America. 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.

The Company's backlog relating to the building efficiency business is applicable to its sales of systems and services. At September 30, 2006, the backlog was \$3.7 billion, compared with \$1.9 billion for the prior year, primarily due to the acquisition of York. The preceding data does not include amounts associated with facility management service contracts because such contracts are typically multi-year service awards. 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 period.

Raw Materials

Raw materials used by the businesses in connection with their operations, including steel, urethane chemicals, lead, copper, sulfuric acid and polypropylene, were readily available during the year and such availability is expected to continue. Except for volatility in lead prices, the Company expects other key commodity costs, such as copper, steel, foam chemicals, resin and fuel to be stable in fiscal year 2007, with the possibility of some softening during the year.

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 foreign 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 foreign countries throughout the world in which 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.)

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 year 2006 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, 2006, the Company employed approximately 136,000 employees, of whom approximately 75,000 were hourly and 61,000 were salaried.

Seasonal Factors

Sales of automotive seating & interior systems and batteries to automobile manufacturers 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. 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 which have no material seasonal effect.

Financial Information About Geographic Areas

Refer to Note 18, "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 it 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, 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.

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. The persistence of long-term economic uncertainty in some of the regions of the world in which we operate,

such as Asia, South America, the Middle East and other emerging markets, could result in the disruption of markets and negatively affect the adequacy of 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 U.S. dollars. We are therefore subject to foreign currency risks and foreign exchange exposure. Our primary exposures are to the euro, British pound, Mexican peso, Canadian dollar, Czech koruna, Slovak koruna and Japanese yen. 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 foreign 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 foreign 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 the Company's business, financial condition and results of operations. As disclosed in previous filings with the Securities and Exchange Commission, we have learned that York engaged in conduct that may lead to enforcement actions against us under applicable U.S. trade and similar laws, which give authorities the right to pursue administrative, civil and criminal sanctions, including monetary penalties.

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

At September 30, 2006, we recorded a liability of \$34 million relating to environmental matters. Because of the uncertainties associated with environmental regulation and environmental remediation activities at sites where we may be potentially liable, future expenses to remediate identified sites could be considerably higher than the accrued liability, which could have a material adverse effect on our business and results of operations.

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 that could materially and adversely affect our results of operations.

Additionally, we are subject to tax audits by governmental authorities in the U.S. and foreign jurisdictions. Because the results of tax audits are inherently uncertain, negative or unexpected results from one or more such tax audits could adversely affect our results of operations.

We may be adversely affected by legal proceedings in which we are, or may be, a party.

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.

Our access to the debt capital markets may ultimately be impacted by changes in the ratings that rating agencies assign to our debt. 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 fell 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. Consequently, an increase in the level of our indebtedness may result in an increase in our interest expense. 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 profitability and results of operations.

We intend to grow through the acquisition of businesses and assets that will complement our current businesses. To date, a material portion of our growth has come through acquisitions. 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.

Automotive Experience Risks

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

In fiscal year 2006, our three largest customers were automobile manufacturers General Motors Corporation, DaimlerChrysler AG and Ford Motor Company (the Big 3), with sales to these customers representing approximately 32% of total company net sales. Sales to the Big 3 originating in the U.S. represented approximately 13% of our total net sales in fiscal year 2006. Our financial performance depends, in part, on conditions in the automotive industry. The Big 3 have experienced declining market shares in North America and have recently 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 Big 3, reduce their orders to us, our results of operations would be adversely impacted. 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 Big 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.

Our supplier base has been adversely affected by industry conditions. Lower production levels for 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 could result 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 adopted by our customers 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 domestic automotive manufacturers pursue restructuring and cost cutting initiatives to better compete with their foreign 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, 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.

The cyclical nature of original equipment automobile production rates may adversely affect the results of operations in our automotive experience and power solutions businesses.

Our automotive experience business and, to a lesser extent, our power solutions business are directly related to automotive sales and automotive vehicle 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 and power solutions customers may have a material adverse impact on our results of operations.

A variety of 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, each of which is 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; 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.

A variety of 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; factors adversely affecting the supply and availability of raw materials, primarily lead and poly/plastics, necessary for production; and rapid increases and volatility of commodity prices, particularly with respect to lead, resin and fuel.

Building Efficiency Risks

Our building efficiency business relies to a great extent on contracts and business with 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 federal 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, sales to government entities may be affected by 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.

A variety of 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; changes in energy costs or governmental regulations that would decrease the incentive for customers to update or improve their interior control systems; increased energy efficiency legislation requirements worldwide; and a decline in the outsourcing of facility management services.

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 year 2006 that remain unresolved.

ITEM 2 PROPERTIES

At September 30, 2006, the Company conducted its operations in 52 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 92 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. The majority of the facilities are operating at normal levels based on capacity.

Table of Contents

	Automotive Experience
Alabama	Cottondale (1),(3) Eastaboga
California	Livermore (2),(3)
Georgia	Norcross (1) Suwanee (1)
Illinois	Sycamore (2),(3)
Indiana	Ossian
Kentucky	Bardstown (3) Cadiz (3) Georgetown (3) Shelbyville (1) Winchester (1)
Louisiana	Shreveport
Michigan	Battle Creek Detroit (3) Holland (2),(3) Lansing (3) Mt. Clemens (1),(3) Plymouth (2),(3) Rockwood (3) Taylor (1),(3) Van Buren (3) Warren (3) Zeeland (1),(3)
Mississippi	Madison
Missouri	Earth City (1),(3) Jefferson City (3)
New Jersey	Dayton (1),(3)
Ohio	Greenfield Northwood Oberlin (1),(3) West Carrollton (1)
Oklahoma	Oklahoma City (3)
Tennessee	Athens (2) Lexington (3) Murfreesboro (2) Pulaski (2),(3)
Texas	El Paso (1),(3) San Antonio (2),(3)
Virginia	Chesapeake (1)
Wisconsin	Hudson (1),(3)
Argentina	Buenos Aires (1) Rosario
Austria	Graz (1),(3) Mandling (3) Schmiedlstrabe (1),(3)
Belgium	Geel (3) Gent (1),(3)
Brazil	Gravatai (3) Pouso Alegre San Bernardo do Campo (1) Santo Andre Sao Jose dos Campos Sao Jose dos Pinhais (1)
Canada	Milton (1),(3) Mississauga (1),(3) Orangeville Saint Mary's Tecumseh Tilsonburg (3) Whitby
China	Beijing (3)
Czech Republic	Benatky nad Jizerou (1),(3) Ceska Lipa (2),(3)

	Mlada Boleslav (1),(3)
	Ni Ebohy (1)
	Roudnice (2),(3)
	Rychnov nad Kneznou (1),(3)
France	Straz pod Ralskem (3)
	Brioude (1),(3)
	Compagnie (3)
	Conflans (3)
	Happich (3)
	La Ferte Bernard (1),(3)
	Rosny
	Schweighaus (3)
Germany	Strasbourg (3)
	Boblingen (1),(3)
	Bochum (1),(3)
	Bremen (1),(3)
	Burscheid (2),(3)
	Espelkamp (3)
	Grefrath (1),(3)
	Hansastr (1),(3)
	Holzgerlingen (1),(3)
	Lahnwerk (2),(3)
	Luneburg
	Neustadt (3)
	Rastatt (1),(3)
	Remchingen (3)
	Saarlouis (1)
	Uberherrn (1),(3)
	Unterriexingen (2),(3)
	Waghausel (3)
	Wuppertal (2),(3)
	Zwickau (3)
Hungary	Pilis
	Solymar (2)
Italy	Cicerale (3)
	Grugliasco (1),(3)
	Melfi (1),(3)
	Rocca D'Evandro (1)
Japan	Ayase (3)
	Hamakita
	Mouka
	Toyotsucho (3)
	Yokosuka (2)

Table of Contents

Automotive Experience (cont.)	
Korea	Asan (3) Dangjin (3) Hwasung Jeongeup (1) Namsa (1)
Malaysia	Johor Bahru Peramu Jaya (1) Persiaran Sabak Bernam
Mexico	Monclova (3) Naucalpan de Juarez (1) Puebla (2),(3) Ramos Arizpe Tlaxcala (3) Tlazala (1)
Netherlands	Ned Car (1),(3)
Poland	Tychy (3)
Portugal	Nelas (3) Portalegre (3)
Romania	Mioveni (1),(3) Ploiesti (3)
Russia	St. Petersburg (1),(3)
Slovak Republic	Bratislava (1),(3) Kostany nad Turcom (3)
Slovenia	Slovenj Gradec (1),(3)
South Africa	East London (1) Pretoria (2),(3) Uitenhage (1)
Spain	Alagon (3) Barcelona (3) Madrid (1),(3) Prat de Llobregat Valencia (2),(3) Valladolid Zaragoza (3)
Thailand	Rayong (3)
Tunisia	Bi'r al Bay (3)
United Kingdom	Burton-Upon-Trent (2),(3) Hedera (1),(3) Leamington Spa (1),(3) Speke (3) Sunderland Telford (2),(3) Wednesbury (3)
Building Efficiency	
California	Santa Fe Springs (1), (3)
Florida	Lagro (1)
Illinois	Dixon (2),(3) Polo
Indiana	Goshen (3)
Kansas	Wichita (2),(3)
Mississippi	Hattiesburg
Missouri	Albany
Oklahoma	Norman (1),(3)
Pennsylvania	York Waynesboro (3)
Texas	San Antonio
Virginia	Bristol (3) Roanoke
Wisconsin	Milwaukee (2),(4) Waukesha (1),(3)
Brazil	Pinhais São Paulo (1),(3)
China	Guangzhou (1),(3)

	Shanghai (1),(3)
	Qingyuan (2),(3)
	Wuxi (1),(3)
Denmark	Aarhus (1),(3)
	Hornslet (2),(3)
	Viby
France	Craquefou (2),(3)
	Nantes
	Saint Quentin Fallavier (1),(3)
Germany	Essen (2),(3)
Hong Kong	Hong Kong
Japan	Koga (3)
Mexico	Apodaca (2)
	Cienega de Flores (1)
	Cuidad Juarez (1),(3)
	Durango
	Monterrey
	Reynosa (3)
South Africa	Johannesburg (1),(3)
Switzerland	Basel (1),(3)
	Zurich
Thailand	Laem Chanbang — Chonburi
Turkey	Istanbul (1),(3)
	Izmir (1),(3)
United Arab Emirates	Dubai (2),(3)

Table of Contents

	Power Solutions
Arizona	Yuma (2)
California	Fullerton
Colorado	Aurora (2),(3)
Delaware	Middletown (2)
Florida	Tampa (2)
Illinois	Geneva
Indiana	Ft. Wayne
Iowa	Red Oak
Kentucky	Florence
Missouri	St. Joseph (2)
New Jersey	New Brunswick
North Carolina	Winston-Salem (2)
Ohio	Toledo
Oregon	Portland
South Carolina	Oconee (2)
Texas	San Antonio (1)
Wisconsin	Milwaukee (4)
Austria	Graz (1)
Brazil	Sorocaba (3)
China	Shanghai (3)
Czech Republic	Ceska Lipa (3)
France	Rouen
	Sarreguemines (3)
Germany	Hannover (3)
	Krautscheid (3)
	Otzenhausen
	Zwickau (2),(3)
Mexico	Celaya
	Cienega de Flores
	Escobedo
	Monterrey (2),(3)
	Torreon
Spain	Burgos (3)
	Guadamar del Segura
	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 390 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 50 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 U.S. generally accepted accounting principles; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Its reserves for environmental costs totaled \$34 million and \$28 million at September 30, 2006 and 2005, respectively. The Company reviews the status of the 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 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 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.

In 1989, Johnson Controls initiated an action in the Milwaukee County, Wisconsin Circuit Court, *Johnson Controls, Inc. v. Employers Insurance of Wausau*, which sought reimbursement under comprehensive general liability insurance policies dating from 1954 through 1985 for costs relating to certain environmental matters. In 1995, the Circuit Court dismissed the action based on the Wisconsin Supreme Court's decision in *City of Edgerton v. General Casualty Co. of Wisconsin*. The Company twice appealed the case to the Court of Appeals and then petitioned the Wisconsin Supreme Court to review the lower courts' judgments. The Supreme Court granted the petition and on July 11, 2003, overruled its decision in the Edgerton case, and found that the comprehensive general liability insurance policies may provide coverage for environmental damages. The Supreme Court's decision remanded the case to the Circuit Court for further consideration. In fiscal years 2005 and 2006, the Company filed motions for declaratory judgment, in which it sought a ruling that some of its insurers breached their respective duties to defend, thus waiving defenses against the Company's environmental claims. The Company is currently in settlement negotiations with certain of the insurance company defendants and, in the third quarter of fiscal year 2006, reached agreement with one of the defendants. The ultimate outcome of claims against the other defendants cannot be determined at this time; however, the Company expects a decision on its motions for declaratory judgment during fiscal year 2007.

In 2003, the Company was involved in an asbestos release during the renovation of a building in Lakeland, Florida. Following an investigation, the U.S. EPA turned its findings over to the U.S. Attorney for the Middle District of Florida. In November 2005, the U.S. Attorney advised the Company that it is considering proceedings against the Company, including proceedings that would involve criminal charges pursuant to Section 113(c) of the Clean Air Act, 42 U.S.C. § 7413(c), and Section 103 of the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 103. The Company believes the release was totally inadvertent and does not believe this should be a criminal matter. The Company also believes that any monetary sanctions resulting from the U.S. Attorney's pursuit of this matter would not be material.

As previously reported, following allegations in a U.N. Oil-For-Food Inquiry Report that, prior to the Company's acquisition of 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 Department of Justice (DOJ) and Securities and Exchange Commission. 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 has also reviewed certain of York's sales practices in selected Asian markets. The factual inquiry is now substantially complete and indicates that, in a number of instances, York engaged in conduct that may lead to enforcement actions against the Company under applicable U.S. laws, which give authorities the right to pursue administrative, civil and criminal sanctions, including monetary penalties. The Company has been voluntarily disclosing this information and offering continued cooperation with the DOJ and SEC, as well as to other relevant authorities in the U.S. Departments of Treasury, Commerce and Defense. The Company has begun preliminary discussions with the relevant authorities to explore how these matters may be resolved. 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, 2006 is included as an unnumbered Item in Part I of this report in lieu of being included in the Company's fiscal year 2006 Proxy Statement.

John M. Barth , 60, was elected Chairman in January 2004, Chief Executive Officer in October 2002 and a member of the Board of Directors in November 1997. He previously served as 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.

Stephen A. Roell , 56, was elected Vice Chairman in May 2005 and a member of the Board of Directors and Executive Vice President in October 2004. He 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.

Keith E. Wandell , 56, 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 1997 to May 2005, President of automotive experience from October 2003 to July 2006 and President of battery operations for automotive experience. Mr. Wandell joined the Company in 1988.

R. Bruce McDonald , 46, 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 January 2002 to May 2005 and as Corporate Controller from November 2001 to January 2002. Prior to that time, Mr. McDonald was Vice President of Finance for the automotive business of TRW Inc., a supplier of automotive systems, modules and components to automotive original equipment manufacturers and related after-markets worldwide. Mr. McDonald joined the Company in 2001.

C. David Myers , 43, 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 International Corporation. At York, Mr. Myers most recently 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 , 44, was elected a Corporate Vice President and Corporate Controller in March 2005, when he joined the Company. From 2001 to March 2005, Mr. Augustin was Vice President of Finance and Corporate Controller of Gateway, Inc, a seller of desktop and notebook computers and servers (PCs), and PC-related products globally.

Beda Bolzenius , 50, 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 the energy and body systems division.

Susan F. Davis , 53, was elected Executive Vice President of Human Resources in September 2006. She previously served as Vice President of Human Resources from April 1994 to July 2006 and as Vice President of Organizational Development for automotive experience from August 1993 to April 1994. Ms. Davis joined the Company in 1983.

Jeffrey S. Edwards , 44, 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 , 63, 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.

Charles A. Harvey , 54, 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.

John P. Kennedy , 63, was elected an Executive Vice President in May 2005. He previously served as President of the building efficiency business from October 2004 to December 2005, was a Senior Vice President from August 2002 to May 2005, served as Secretary from 1987 to October 2004 and served as General Counsel from 1984 to November 2004. Mr. Kennedy joined the Company in 1984.

Sean D. Major , 42, was elected Assistant Secretary and appointed Assistant General Counsel in November 2004. He formerly served as group Vice President and General Counsel International. Mr. Major joined the Company in 1998.

Alex A. Molinaroli , 47, was elected a Corporate Vice President in May 2004 and serves as Vice President and General Manager for North America Systems & the Middle East for the building efficiency business. He previously has held increasing levels of responsibility for controls systems and services sales and operations. Mr. Molinaroli joined the Company in 1983.

Jerome D. Okarma , 54, 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.

Gregg M. Sherrill , 53 , was elected a Corporate Vice President in May 2004 and serves as President of the power solutions business. He previously served as Group Vice President and General Manager of battery operations for the automotive experience business, Group Vice President and Managing Director, Japan and Asia Pacific and Group Vice President and Managing Director, Europe, South Africa and South America. Mr. Sherrill joined the Company in 1998.

Michael D. Su , 48, was elected a Corporate Vice President in May 2004 and serves as Vice President and Managing Director of the Asia Pacific region for the building efficiency business. He previously served in various building efficiency management positions in Asia and North America. Mr. Su joined the Company in 1984.

Subhash “Sam” S. Valanju , 63, was elected a Corporate Vice President in 1999 and has served as Chief Information Officer since joining the Company in 1996.

Frank A. Voltolina , 46, 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., a global supplier of a broad range of integrated systems, modules and components to the motor vehicle industry.

Denise M. Zutz , 55, 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.

Table of Contents

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 are traded on the New York Stock Exchange under the symbol "JCI."

Title of Class	Number of Record Holders as of September 30, 2006			
Common Stock, \$.04-1/6 par value	51,240			
	Common Stock Price Range		Dividends	
	2006	2005	2006	2005
First Quarter	\$60.28-73.94	\$53.05-63.98	\$ 0.28	\$ 0.25
Second Quarter	66.74-77.44	55.25-63.88	0.28	0.25
Third Quarter	74.00-90.00	52.57-58.20	0.28	0.25
Fourth Quarter	68.40-85.81	55.88-62.70	0.28	0.25
Year	<u>\$60.28-90.00</u>	<u>\$52.57-63.98</u>	<u>\$ 1.12</u>	<u>\$ 1.00</u>

On November 19, 2003, the Company's Board of Directors declared a two-for-one stock split of the common stock payable January 2, 2004 to shareholders of record on December 12, 2003. This stock split resulted in the issuance of approximately 91 million additional shares of common stock and was accounted for by the transfer of approximately \$7 million from common stock to capital in excess of par value. All share or per share data in this Annual Report on Form 10-K reflect the two-for-one stock split.

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 three months and year ended September 30, 2006. There were no purchases by Citibank in the three months or year ended September 30, 2006.

Table of Contents

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 no repurchases made under the stock repurchase program as of September 30, 2006.

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

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, 2002 through September 30, 2006 (in millions, except per share data, number of employees and shareholders).

Table of Contents

	As of and For the Year Ended September 30,				
	2006 (1)	2005	2004	2003	2002
OPERATING RESULTS					
Net sales	\$ 32,235	\$ 27,479	\$ 24,603	\$ 21,171	\$ 18,782
Operating income	1,282	1,066	1,135	1,028	1,006
Income from continuing operations	1,033	757	767	645	584
Net income	1,028	909	818	683	601
Earnings per share from continuing operations					
Basic	\$ 5.31	\$ 3.95	\$ 4.08	\$ 3.57	\$ 3.26
Diluted	5.25	3.90	3.98	3.40	3.09
Earnings per share					
Basic	\$ 5.29	\$ 4.74	\$ 4.35	\$ 3.78	\$ 3.35
Diluted	5.23	4.68	4.24	3.60	3.18
Return on average shareholders' equity (2)	15%	13%	16%	17%	18%
Capital expenditures	\$ 711	\$ 664	\$ 817	\$ 606	\$ 473
Depreciation	661	615	572	511	482
Number of employees	136,000	114,000	113,000	108,000	102,000
FINANCIAL POSITION					
Working capital (deficiency) (3)	\$ 1,073	\$ 298	\$ (422)	\$ (186)	\$ (41)
Total assets	21,921	16,144	14,758	12,917	10,982
Long-term debt (excluding current portion)	4,166	1,577	1,631	1,777	1,826
Total debt	4,743	2,342	2,671	2,355	1,972
Shareholders' equity	7,355	6,058	5,206	4,261	3,500
Total debt to total capitalization	39%	28%	34%	36%	36%
Book value per share	\$ 37.57	\$ 31.41	\$ 27.41	\$ 23.23	\$ 19.35
COMMON SHARE INFORMATION					
Dividends per share	\$ 1.12	\$ 1.00	\$ 0.90	\$ 0.72	\$ 0.66
Market prices					
High	\$ 90.00	\$ 63.98	\$ 62.32	\$ 50.44	\$ 46.60
Low	\$ 60.28	\$ 52.57	\$ 47.60	\$ 34.55	\$ 32.03
Weighted average shares (in millions)					
Basic	194.5	191.8	187.7	178.7	176.7
Diluted	196.6	194.3	192.6	189.1	188.2
Number of shareholders	51,240	52,964	55,460	55,823	57,551

- (1) In December 2005, the Company significantly expanded the building efficiency business with the acquisition of York. See Items 1, 7 and 8 for additional details of the acquisition.
- (2) Return on average shareholders' equity represents income from continuing operations divided by average equity computed on an annual basis. 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 year 2004 includes an \$84 million Japanese pension gain.
- (3) Working capital excludes net assets of discontinued operations of \$45 million, \$351 million, \$352 million and \$230 million for fiscal years ended September 30, 2006, 2004, 2003 and 2002, respectively.

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 and services including comfort, energy and security management for the residential and non-residential buildings market. 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.

In fiscal year 2005, the Company completed six acquisitions, most notably Delphi Corporation's (Delphi) global battery business, which enabled participation in the rapidly growing Asian automotive battery market, particularly in China.

In fiscal year 2004, the Company acquired the remaining 51% ownership of a power solutions joint venture with Grupo IMSA, S.A. de C.V. (Latin American JV) in order to expand its presence in the Mexican battery market.

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, 2006. This discussion should be read in conjunction with Item 8, the consolidated financial statements and notes to the consolidated financial statements.

Executive Overview

In fiscal year 2006, the Company recorded record net sales and record net income. Net sales were \$32.2 billion, a 17% increase over the prior year, and net income was \$1.0 billion, a 13% increase over the prior year, with such increases primarily from the impact of the York and Delphi battery business acquisitions. With the successful integration of York into the building efficiency business, the Company was able to improve its earnings diversification and to further expand globally. 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 operating income increased 79% and 93%, respectively, over the prior year, primarily due to the York acquisition, global workplace solutions customer wins and the leveraging of expanded product offerings to customers. 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 North American automobile production and the unfavorable impact of foreign currency translation in Europe. Net sales and operating income decreased 3% and 24%, respectively, from the prior year. The Company expects that recently announced restructuring programs, program wins in North America, Europe and China, improvements in the cost structure and investments to strengthen technology will improve future results.

Net sales and operating income for the power solutions business increased by 27% and 33%, respectively, over the prior year, primarily due to aftermarket and original equipment market share growth in North America, strong aftermarket demand in Europe and increased market share in Asia. With recent acquisitions, the power solutions business continues to expand its global reach and is building leadership in the emerging hybrid battery market.

Table of Contents

In connection with the York acquisition, the Company issued \$2.5 billion in floating and fixed rate notes to repay unsecured commercial paper obligations and entered into a three-year, 24 billion yen loan. Since December 2005, the Company has repaid approximately \$800 million of debt to reduce its total debt to capitalization ratio from 46% at December 31, 2005 to 39% at September 30, 2006. The Company expects continued reduction of this ratio in fiscal year 2007.

In fiscal year 2007, the Company anticipates that net sales will grow to approximately \$34 billion, an increase of 6% from the prior year, which includes 25% growth in the building efficiency business, 5% growth in the power solutions business and an approximate 3% to 5% decrease in the automotive experience business. The Company anticipates that diluted earnings per share from continuing operations to be approximately \$6.00, a 14% increase over fiscal year 2006.

Segment Analysis

Management evaluates the performance of the segments based primarily on operating income, excluding restructuring costs and other significant non-recurring gains and losses. Operating revenues and expenses are allocated to business segments in determining segment operating income. Items excluded from the determination of segment operating income include interest income and expense, equity in earnings of partially-owned affiliates, gains and losses from sales of businesses, foreign currency gains and losses, and other miscellaneous income and expense.

In the second quarter of fiscal year 2006, in connection with the York acquisition, the Company reevaluated its operating and reportable segments in accordance with Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company determined that it had ten reportable segments for financial reporting purposes. Certain operating segments are aggregated within the building efficiency — rest of world and power solutions reportable segments. The following is a description of each building efficiency reportable segment.

- North America systems designs, produces, markets and installs mechanical equipment that provides heating and cooling in North American non-residential buildings and industrial applications as well as control systems that integrate the operation of this equipment with other critical building systems.
- North America service provides technical services including inspection, scheduled maintenance, repair and replacement of mechanical and control systems in North America, as well as the retrofit and service components of performance contracts and other solutions.
- North America unitary products designs and produces heating and air conditioning solutions for residential and light commercial applications and markets products to the replacement and new construction markets.
- Workplace solutions provides on-site staff for complete real estate services, facility operation and management to improve the comfort, productivity, energy efficiency and cost effectiveness of building systems around the globe.
- Europe provides HVAC and refrigeration systems and technical services to the European marketplace.
- Rest of world provides HVAC and refrigeration systems and technical services to markets in Asia, the Middle East and Latin America.

FISCAL YEAR 2006 COMPARED TO FISCAL YEAR 2005

Summary

(In millions)	Year Ended September 30,		Change
	2006	2005	
Net sales	\$32,235	\$27,479	17%
Operating income	1,282	1,066	20%

Table of Contents

- The increase in net sales was primarily due to the impact of the York and Delphi acquisitions and organic growth in the power solutions segment, partially offset by lower North American automobile production and unfavorable foreign currency translation (approximately \$500 million).
- Excluding the unfavorable effects of foreign currency translation, consolidated net sales increased 19% as compared to the prior year.
- The increase in operating income was primarily due to the impact of the York and Delphi acquisitions and organic growth in the power solutions segment, partially offset by increased raw material costs, including lead and petroleum-based products, lower North American automobile production and unfavorable foreign currency translation (approximately \$25 million). Operating income was also favorably impacted on a net basis in fiscal year 2006 by legal and customer contract settlements which were partially offset by York integration costs.
- Excluding the unfavorable effects of foreign currency translation, operating income increased 23% as compared to the prior year.

Building Efficiency

(In millions)	Net Sales for the for the Year Ended September 30,			Operating Income for the for the Year Ended September 30,		
	2006	2005	Change	2006	2005	Change
North America Systems	\$ 1,609	\$ 1,158	39%	\$ 132	\$ 112	18%
North America Service	1,943	1,186	64%	145	84	73%
North America Unitary Products	853	—	*	71	—	*
Workplace Solutions	2,046	1,863	10%	67	68	-1%
Europe	1,900	899	111%	(7)	(7)	0%
Rest of World	1,894	612	209%	128	38	237%
	<u>\$ 10,245</u>	<u>\$ 5,718</u>	<u>79%</u>	<u>536</u>	<u>295</u>	<u>82%</u>
Restructuring costs				(65)	(51)	
				<u>\$ 471</u>	<u>\$ 244</u>	<u>93%</u>

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

Net Sales:

- The increase in net sales for North America systems, North America service, North America unitary products, Europe and rest of world was 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.
- The increase in net sales for workplace solutions primarily reflects 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.

Operating Income:

- Excluding restructuring costs, the increase in total building efficiency operating income was primarily due to the impact of the York acquisition.
- Restructuring costs by building efficiency reporting segment for the years ended September 30, 2006 and 2005 are as follows: North America systems (\$0 and \$3 million); North America service (\$1 million and \$0 million); workplace solutions (\$7 million and \$13 million); Europe (\$40 million and \$8 million); and rest of world (\$17 million and \$27 million). Please see the restructuring costs section below for further details.
- Similarly, the increase in operating income for North America service, North America unitary products and rest of world was primarily due to the impact of the York acquisition.

Table of Contents

- The increase in operating income for North America systems was primarily due to an increase in 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.

Automotive Experience

(In millions)	Net Sales for the for the Year Ended September 30,			Operating Income for the for the Year Ended September 30,		
	2006	2005	Change	2006	2005	Change
North America	\$ 8,041	\$ 8,499	-5%	\$ 145	\$ 350	-59%
Europe	8,774	8,935	-2%	383	252	52%
Asia	1,459	1,399	4%	(28)	30	-193%
	<u>\$ 18,274</u>	<u>\$ 18,833</u>	<u>-3%</u>	<u>500</u>	<u>632</u>	<u>-21%</u>
Restructuring costs				(129)	(142)	
				<u>\$ 371</u>	<u>\$ 490</u>	<u>-24%</u>

Net Sales:

- North American net sales decreased slightly as higher volumes with DaimlerChrysler AG 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.
- European net sales declined slightly as higher volumes across all major customer platforms were more than offset by the unfavorable impact of foreign currency translation (approximately \$300 million).
- Asian net sales 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 (approximately \$30 million).

Operating Income:

North America

- Operating income (excluding \$75 million of restructuring costs) decreased 59% from the prior year (excluding \$12 million of restructuring costs).
- Unfavorable vehicle volume and sales mix decreased operating income by \$139 million as compared to the prior year.
- Cost reduction programs, purchasing savings and other operational efficiencies contributed approximately \$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

- Operating income (excluding \$53 million of restructuring costs) increased 52% from the prior year (excluding \$130 million of restructuring costs).

Table of Contents

- Cost reduction programs, purchasing savings and other operational efficiencies contributed approximately \$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

- Asia reported an operating loss in fiscal year 2006, 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.
- Restructuring costs were \$1 million in fiscal year 2006 compared to none in fiscal year 2005.

Power Solutions

(In millions)	Year Ended September 30,		Change
	2006	2005	
Net sales	\$3,716	\$2,928	27%
Restructuring costs	3	17	-82%
Operating income	443	349	27%

- The increase in net sales was 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 (approximately \$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.
- The increase in operating income was 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 (2006 Plan) in the third quarter of fiscal year 2006 and recorded a \$197 million restructuring charge. The 2006 Plan, which primarily includes workforce reductions and plant consolidations in the automotive experience and building efficiency businesses, is expected to be substantially completed by the end of the third quarter of fiscal year 2007. The automotive experience business related restructuring is 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 relate to Europe where the Company has launched a systems redesign initiative. During the fourth quarter of fiscal year 2006, automotive experience — North America recorded an additional \$8 million for employee severance and termination benefits. The Company expects to incur other related and ancillary costs associated with some of these restructuring activities in future periods. These costs are not expected to be material and will be expensed as incurred.

The 2006 Plan includes workforce reductions of approximately 4,700 employees (2,200 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 will be 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, 2006, approximately 350 employees have been separated from the Company. In addition, the 2006 Plan

Table of Contents

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). The restructuring charge for the impairment of the long-lived assets associated with the plant closures was determined using an undiscounted cash flow analysis.

The Company recorded the restructuring charge as a result of management's ongoing review of the Company's cost structure, the sharp increase in commodity costs, and the current economic difficulties facing some of its most significant customers. Company management is continually analyzing its businesses for opportunities to consolidate current operations and to locate its facilities in low cost countries in close proximity to its customers. This ongoing analysis includes the review of its manufacturing, engineering and purchasing operations as well as its overall Company footprint.

Other Income/Expense

(In millions)	Year Ended September 30,		Change
	2006	2005	
Interest expense — net	\$248	\$108	130%
Equity income	112	72	56%
Miscellaneous expense — net	8	27	-70%

- Net interest expense increased primarily due to the financing associated with the York acquisition, partially offset by debt reduction from operating cash flows.
- Equity income increased primarily due to joint ventures included in the Delphi acquisition, higher income from automotive experience joint ventures in China and certain power solutions joint ventures.
- Miscellaneous expense — net decreased primarily due to a \$9 million gain from the sale of the Company's interest in an automotive experience joint venture and non-recurring losses on the sale of assets in the prior year (\$5 million).

Provision for Income Taxes

The Company's base effective income tax rate for continuing operations for fiscal year 2006 declined to 21.0% from 25.7% in fiscal year 2005, primarily due to continuing global tax planning initiatives, increased income in certain foreign jurisdictions with a rate of tax lower than the U.S. statutory tax rate and decreased income in higher tax jurisdictions. The Company's effective tax rate for fiscal year 2006 was further reduced as a result of a reversal of valuation allowances at 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 foreign 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 foreign earnings.

Valuation Allowance Adjustments

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 year 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 year 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 third quarter of fiscal year 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.

Uncertain Tax Positions

The Company's effective tax rate was reduced in the third quarter of fiscal year 2006 by a \$10 million tax benefit related to a favorable tax audit resolution in a foreign jurisdiction.

The Company is subject to income taxes in the U.S. and numerous foreign 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 federal income tax returns and certain foreign income tax returns for fiscal years 1997 through 2003 are currently under various stages of audit by the Internal Revenue Service and respective foreign 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 has 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 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 foreign operations. The deduction is subject to a number of limitations. During the quarter ended March 31, 2006, the Company completed its evaluation of its repatriation plans and \$674 million of foreign earnings were repatriated 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 second quarter of fiscal year 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.

Other Discrete Period Items

The Company's effective tax rate was also reduced in the first quarter of fiscal year 2006 by \$11 million due to a change in tax status for subsidiaries in Hungary and the Netherlands. 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 foreign 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.

The Company's effective tax rate was also reduced in the first quarter of fiscal year 2006 by a \$4 million tax benefit related to a \$9 million gain resulting from the disposition of the Company's interest in a German joint venture.

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 \$42 million compared with \$41 million in the prior year 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 year 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 year 2006 diluted earnings per share from continuing operations was \$5.25, a 35% increase from the prior year's \$3.90.

FISCAL YEAR 2005 COMPARED TO FISCAL YEAR 2004

Building Efficiency

(In millions)	Net Sales for the for the Year Ended September 30,		Change	Operating Income for the for the Year Ended September 30,		Change
	2005	2004		2005	2004	
North America Systems	\$ 1,158	\$ 1,132	2%	\$ 112	\$ 91	23%
North America Service	1,186	987	20%	84	52	62%
Workplace Solutions	1,863	1,753	6%	68	59	15%
Europe	899	866	4%	(7)	(6)	-17%
Rest of World	612	586	4%	38	45	-16%
	<u>\$ 5,718</u>	<u>\$ 5,324</u>	<u>7%</u>	<u>295</u>	<u>241</u>	<u>22%</u>
Restructuring costs				(51)	(13)	
				<u>\$ 244</u>	<u>\$ 228</u>	<u>7%</u>

Net Sales:

- Excluding the favorable impact of foreign currency translation (approximately \$125 million), building efficiency net sales increased 5%, primarily due to growth in North America service markets.
- North America systems showed slight growth in both the existing buildings and new construction market.
- North America service sales increased primarily due to the incremental effect of fiscal year 2005 acquisitions and higher technical services revenues.
- Europe net sales increased primarily due to the positive effects of currency translation.
- Rest of world net sales increased primarily due to new construction market growth in Japan.

Operating Income:

- Excluding restructuring costs, operating income increased 22%, primarily due to sales growth and higher gross profit in North America, partially offset by higher SG&A expenses in all reporting segments.
- North America system and North America service gross margins benefited from improved operational efficiencies associated with the Company's branch office redesign initiative, partially offset by higher SG&A expenses in North America from fiscal year 2005 acquisitions (\$32 million).
- Workplace solutions operating income increased primarily due to higher sales volume in Europe.

Automotive Experience

(In millions)	Net Sales for the for the Year Ended September 30,			Operating Income for the for the Year Ended September 30,		
	2005	2004	Change	2005	2004	Change
North America	\$ 8,499	\$ 8,237	3%	\$ 350	\$ 504	-31%
Europe	8,935	7,677	16%	252	113	123%
Asia	1,399	1,093	28%	30	38	-21%
	<u>\$ 18,833</u>	<u>\$ 17,007</u>	<u>11%</u>	<u>632</u>	<u>655</u>	<u>-4%</u>
Restructuring costs				(142)	(56)	
Japanese pension gain				—	84	
				<u>\$ 490</u>	<u>\$ 683</u>	<u>-28%</u>

Net Sales:

- North America net sales increased slightly, primarily due to new business awards and a favorable mix of vehicle platforms compared to an estimated 2% decrease in the domestic vehicle production.
- Excluding the favorable impact of currency translation (approximately \$400 million), Europe net sales increased 11%, primarily due to new contract awards in seating and interior systems, growth in electronics revenue and a slightly positive mix relative to the estimated slight decline in industry production in Europe.
- Excluding the favorable impact of currency translation (approximately \$50 million), Asia net sales increased 24%, primarily due to the introduction of significant new models in Japan by original equipment manufacturers and strong sales in our seating business in Korea.

Operating Income:

North America

- Operating income (excluding \$12 million of restructuring costs) decreased 31% (excluding \$5 million of restructuring costs), primarily due to selling price reductions and material cost increases in excess of cost savings, partially offset by lower SG&A expenses.
- Lower sales mix of mature vehicle programs and sales price reductions under long term agreements with the Company's customers exceeded cost reductions and operational efficiencies by \$71 million for the year. The lower sales mix of mature vehicle programs negatively impacted results as these sales typically deliver more favorable margins due to operational efficiencies and cost reductions that are implemented throughout the vehicle life cycle. In contrast, new vehicle programs require significant engineering and start up costs thereby reducing margins at the onset of the program. Annual price reduction renewal negotiations during the period yielded terms consistent with prior agreements. It should be noted that price reduction commitments are often made in the context of broader customer negotiations on several factors, including volume, potential new business opportunities and geographic expansion.
- Commodity costs, primarily steel, resin and chemicals, increased by approximately \$132 million, net of recoveries, compared to the prior year. The Company addresses fluctuations in commodity costs through negotiations with both its customers and suppliers. In order to address future fluctuations, the Company continues to modify the duration and terms of its direct material buy contracts.
- SG&A expenses decreased \$49 million, primarily due to lower net engineering expenses compared to the prior year which included increased engineering expenses incurred for new vehicle programs.

Europe

- Excluding the favorable impact of foreign currency (approximately \$15 million), operating income (excluding \$130 million of restructuring costs) increased \$125 million (excluding \$51 million of restructuring costs),

Table of Contents

primarily due to increased volumes of higher margin interior systems, lower launch costs and operational improvements, partially offset by commodity cost increases and higher SG&A expenses.

- Implemented cost reductions, operational efficiencies and the higher sales mix of mature vehicle programs exceeded incremental sales price reductions by approximately \$202 million for the year. The segment benefited from implemented cost reductions resulting from the 2005 restructuring plan and continued to benefit from the 2003 turnaround program which concentrated on the implementation of best business practices and six sigma activities on its existing operations. Annual sales price reduction renewal negotiations during the period yielded terms consistent with prior agreements.
- The incremental effect of commodity costs totaled approximately \$53 million. The increases were less than those incurred in North America due to the timing of contract renewals and variations in certain terms of the agreements.
- SG&A expenses increased approximately \$24 million primarily due to higher program management costs from purchasing and information technology activities, partially offset by lower net engineering expenses.

Asia

- Operating income decreased primarily due to start-up and engineering costs associated with new program wins in Japan. The net effect of foreign currency translation was neutral to the segment's operating income.

Power Solutions

(In millions)	Year Ended September 30,		Change
	2005	2004	
Net sales	\$2,928	\$2,272	29%
Restructuring costs	17	13	31%
Operating income	349	237	47%

- Excluding the favorable effects of currency translation (approximately \$45 million), net sales increased 27%, primarily due to growth in North America and Europe.
- North American sales of automotive batteries increased 35% primarily due to the acquisition of the remaining 51% interest in the Latin American JV in the fourth quarter of fiscal year 2004, which added \$258 million of sales. Sales were also favorably impacted by the pass-through pricing of higher lead costs and higher shipments to existing customers.
- European sales of automotive batteries increased 15% primarily due to higher shipments to existing customers, the favorable impact of currency translation, and the pass-through pricing of higher lead costs to customers.
- Excluding restructuring costs, operating income increased \$112 million, primarily due to higher sales volumes in both the Americas and Europe and the acquisition of the remaining interest in the Latin American JV (\$24 million). The power solutions business also benefited from a favorable product mix in North America and operational improvements in Europe. The increases were partially offset by the incremental effect of commodity costs, which negatively impacted global operating income by approximately \$8 million net of the benefit from the implementation of lead hedges and improved pass through of lead costs.

Restructuring Costs

In the second quarter of fiscal year 2005, the Company executed a restructuring plan (2005 Plan) involving cost reduction actions and recorded a \$210 million restructuring charge. These restructuring charges include 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. As of September 30, 2006, approximately 2,900 employees have separated from the Company

Table of Contents

pursuant to the 2005 Plan. In addition, the 2005 Plan includes 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 are primarily concentrated in Europe, while the building efficiency restructuring actions involve activities in both North America and Europe. The Company expects to incur other related and ancillary costs associated with some of these restructuring initiatives. These costs are not expected to be material and will be expensed as incurred. The majority of the restructuring activities are expected to be completed by December 2006.

Other Income/Expense

(In millions)	Year Ended September 30,		Change
	2005	2004	
Interest expense — net	\$108	\$98	10%
Equity income	72	97	-26%
Miscellaneous expense — net	27	64	-58%

- Interest expense — net increased, primarily due to higher interest rates.
- Equity income decreased, primarily due to lower earnings at certain automotive experience joint ventures in China and Europe.
- Miscellaneous expense — net decreased as the prior year included foreign currency losses of approximately \$16 million (compared to a slight gain in the fiscal year 2005), approximately \$6 million of expense in fiscal year 2004 associated with the early redemption of outstanding bonds and higher non-recurring litigation expenses in fiscal year 2004.

Provision for Income Taxes

The Company's base effective income tax rate for continuing operations for fiscal year 2005 declined to 25.7% from 26.0% for the prior year primarily due to continuing global tax planning initiatives. The Company's base effective tax rate is calculated by adjusting the effective tax rate for significant one time tax items. For the year ended September 30, 2005, the effective rate was impacted by a \$12 million and \$69 million tax benefit in the first and second quarters, respectively, due to a change in tax status of a French and a German subsidiary. The change in tax status resulted from a voluntary tax election that produced a deemed liquidation of the French and German subsidiaries 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 French and German entities from controlled foreign 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, "Accounting for Income Taxes." The voluntary tax election related to the German subsidiary resulted in a capital loss for tax purposes of \$539 million, \$187 million of which was utilized in the second quarter. The tax benefit on the remaining capital loss has not been recorded as the remaining capital loss can only be used to the extent of future capital gains resulting from non-recurring transactions in the U.S., none of which are contemplated at this time; there are no prudent or feasible tax planning strategies in place at this time to utilize such capital losses; the capital loss carryforward period for U.S. federal income tax purposes is 5 years thereby limiting the time period in which the Company could utilize the U.S. capital losses; and certain assumptions and estimates in determining the amount of capital loss were used that may change the ultimate capital loss to be realized. These tax benefits were partially offset by an increase in the tax valuation allowance of \$28 million in the second quarter 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. In addition, other valuation allowance adjustments during the year related primarily to continuing losses at certain foreign subsidiaries for which no tax benefit was recognized were offset by the utilization of losses in certain foreign subsidiaries for which sustained profitability has not yet been demonstrated, thereby resulting in no significant change in the Company's total valuation allowance during the year. The fiscal year ended September 30, 2004 benefited from a \$27 million favorable tax settlement related to prior periods.

Table of Contents

The annual effective tax rate for income from discontinued operations approximated 39% and 35% for Johnson Controls World Services, Inc. and the engine electronics business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences. The Company's income taxes for the gain on the sale of discontinued operations resulted in an effective tax rate of 38.1%.

Minority Interests in Net Earnings of Subsidiaries

Minority interests in net earnings of subsidiaries were \$41 million compared with \$52 million in the prior year. The decrease was primarily due to lower earnings at certain automotive experience subsidiaries in North America, partially offset by higher earnings at certain Asian joint ventures.

Net Income

Net income for fiscal year 2005 reached \$909 million, 11% above the prior year's \$818 million, primarily due to increased gross profit from increased revenues (\$204 million), the gain on the sale of discontinued operations (\$136 million), and a reduced effective income tax rate on continuing operations, partially offset by higher restructuring costs (\$128 million) and a non-recurring pension gain in the prior year (\$84 million). Fiscal year 2005 diluted earnings per share were \$4.68, 10% above the prior year's \$4.24.

Fiscal Year 2007 Outlook

Net Sales

In fiscal year 2007, the Company anticipates that net sales will grow to approximately \$34 billion, an increase of 6% from prior year net sales. The increase assumes a euro to U.S. dollar exchange rate of \$1.25, which is slightly higher than the average exchange rate of \$1.23 in fiscal year 2006.

The Company expects building efficiency net sales to increase approximately 25% from the prior year, primarily due to the full year impact of the York acquisition, service growth, enhanced global capabilities, expansion into emerging markets and realization of acquisition synergies from joint-selling and cross-selling a full range of product and service offerings.

Building efficiency's backlog relates to its control systems and service activity. At September 30, 2006, the unearned backlog was \$3.7 billion, compared to \$1.9 billion at September 30, 2005, primarily due to the York acquisition.

The Company expects automotive experience net sales to decrease approximately 3% to 5% from the prior year, primarily reflecting lower revenue in North America. Lower industry production volume, unfavorable vehicle mix between light trucks and passenger cars and vehicle program rationalization are the key factors contributing to the decrease.

At September 30, 2006, automotive experience had an incremental backlog of net new incremental business to be executed within the next three fiscal years of \$3.5 billion, \$1.0 billion of which relates to fiscal year 2007. 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 5% from the prior year, primarily due to growth in the aftermarket and the pass-through of higher lead prices.

Operating Margin

The Company anticipates that the overall operating margin percentage in fiscal year 2007 will increase from fiscal year 2006, excluding restructuring costs. The margin improvement reflects the growth and synergy realization in the building efficiency business.

Except for volatility in lead prices, the Company expects other key commodity costs, such as copper, steel, foam chemicals, resin and fuel to be stable in fiscal year 2007, with the possibility of some softening during the year.

Table of Contents

The Company expects building efficiency operating margin percentage for fiscal year 2007 to improve as compared to the prior year, primarily due to the realization of York integration cost synergies and restructuring benefits, non-recurring acquisition accounting expenses taken in fiscal year 2006 and market growth initiatives in all operating segments.

The Company expects power solutions operating margin percentage to be level with the prior year, primarily due to continued operational efficiency improvements and benefits from the Delphi battery integration offset by advanced technology spending and a favorable environmental litigation settlement in the prior year.

The Company expects automotive experience operating margin percentage for fiscal year 2007 to decrease slightly compared to the prior year, primarily due to lower production volumes, vehicle program rationalization, unfavorable product mix in North America and higher engineering and launch costs, partially offset by continued strong performance in Europe. 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.

Other

The Company expects the base effective income tax rate for fiscal year 2007 to be 23.0%, compared to 21.0% in fiscal year 2006, primarily due to expected income mix changes between entities with higher tax rates and entities with lower tax rates.

GOODWILL AND OTHER INVESTMENTS

Goodwill at September 30, 2006 was \$5.9 billion, \$2.2 billion higher than the prior year. The increase was primarily associated with the acquisition York (see Notes 2 and 6 to the consolidated financial statements).

Investments in partially-owned affiliates at September 30, 2006 were \$463 million, \$18 million more than the prior year. The increase was primarily due to equity income exceeding dividends in building efficiency and automotive experience investments and new building efficiency investments from the acquisition of York, offset by the sale of an automotive experience investment.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

(In millions)	September 30, 2006	September 30, 2005	Change
Working capital	\$1,073	\$ 298	260%
Accounts receivable	5,697	4,987	14%
Inventories	1,731	983	76%
Accounts payable	4,216	3,938	7%

Table of Contents

- The increase in working capital, which excludes the net assets of discontinued operations of \$45 million at September 30, 2006, is primarily due to the York acquisition and the overall sales and manufacturing growth experienced in fiscal year 2006. Acquired York-related accounts receivable, inventories and other current assets were significantly higher than acquired current liabilities.
- Days sales in accounts receivable for the year ended September 30, 2006, increased to 57 from 54 in the prior year, primarily due to the impact from the York acquisition. There has been no significant deterioration in the credit quality of the Company's receivables or material changes in revenue recognition methods.
- Inventory turnover for the year ended September 30, 2006, decreased to 11 from 18 the prior year, primarily due to the York acquisition. York product inventories turn less frequently than the Company's other businesses where just-in-time production methods are generally used.

Cash Flow

(In millions)	Year Ended September 30,	
	2006	2005
Cash provided by operating activities	\$1,417	\$ 877
Cash used by investing activities	3,076	338
Cash provided (used) by financing activities	1,741	(496)
Capital expenditures	711	664

- The increase in cash provided by operating activities primarily reflects increased net income (\$119 million), gain from the sale of discontinued operations (\$136 million) and pension contributions in excess of expense (\$138 million) in the prior year, and favorable working capital changes in receivables and other current assets, partially offset by changes in deferred income taxes (\$379 million) and unfavorable working capital changes in accounts payable and accrued liabilities.
- The increase in cash used in investing activities primarily relates to the York acquisition (\$2.5 billion) in the current fiscal year and cash provided by business divestitures (\$679 million) in the prior year.
- Cash provided by financing activities in fiscal year 2006 is primarily related to the York acquisition financing.
- Consistent with the prior year, the majority of the fiscal year 2006 capital expenditures were associated with the automotive experience business and are related to investments in launches of new business and cost reduction projects. Management expects fiscal year 2007 capital expenditures to increase slightly with a reinvestment ratio, which is calculated as capital expenditures divided by depreciation expense, of 1.2 to 1, reflecting expected investments in power solutions global capacity expansion and automation.
- A significant portion of the Company's sales are to customers in the automotive industry (See Note 18 to the consolidated financial statements for disclosure of major customers). Future adverse developments in the automotive industry could impact the Company's liquidity position and/or require additional restructuring of the Company's operations.

Long-Lived Assets

The Company has certain subsidiaries, mainly located in Germany Italy, the Netherlands 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

Table of Contents

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, 2006, the Company does not have any material assets whose recovery is at risk.

Capitalization

(In millions)	September 30, 2006	September 30, 2005	Change
Short-term debt	\$ 209	\$ 684	-69%
Long-term debt	4,534	1,658	173%
Shareholders' equity	7,355	6,058	21%
Total capitalization	\$ 12,098	\$ 8,400	44%
Total debt as a % of total capitalization	39.2%	27.9%	

- In August 2006, the Company issued commercial paper to repay the \$200 million York note that matured.
- In February 2006, the Company executed additional euro cross currency swaps to hedge its net investment position in foreign operations. Any fluctuation in exchange rates related to hedging transactions is offset by the change in value of the underlying investment.
- In January 2006, the Company issued \$2.5 billion in floating and fixed rate notes consisting of the following four series: \$500 million floating rate notes due in fiscal year 2008, \$800 million fixed rate notes due in fiscal year 2011, \$800 million fixed rate notes due in fiscal year 2016 and \$400 million fixed rate notes due in fiscal year 2036. The Company also entered into a 24 billion yen (approximately \$206 million), three year, floating rate loan. The net proceeds of the note offering and the bank loan were used to repay the unsecured commercial paper obligations that were used to initially finance the York acquisition.
- In October 2005, the Company entered into a five-year, \$1.6 billion revolving credit facility which expires in October 2010. This facility replaced the five-year \$625 million revolving credit facility, which would have expired in October 2008, and the 364-day \$625 million facility, which expired in October 2005. There were no draws on any of the committed credit lines through September 30, 2006. The revolving credit facility was amended and restated effective December 5, 2006 (see Item 9B "Other Information" in this report for further information).
- In October 2005, the Company entered into a \$2.8 billion revolving credit facility. The Company used the revolving credit facility to provide a liquidity backstop for commercial paper that the Company issued to fund the acquisition of York. Subsequent to the repayment of the commercial paper in January 2006, the Company terminated the revolving credit facility.
- The Company also selectively makes use of short-term money market loans. The Company estimates that it could borrow \$200 million to \$400 million 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 require 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. The Company believes its capital resources and liquidity position at September 30, 2006 were adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, debt maturities and any potential acquisitions in fiscal year 2007 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required.

Table of Contents

A summary of the Company's significant contractual obligations as of September 30, 2006 is as follows:

	<u>Total</u>	<u>2007</u>	<u>2008-2009</u>	<u>2010-2011</u>	<u>2012 and Beyond</u>
Contractual Obligations					
Long-term debt (including capital lease obligations)*	\$ 4,534	\$ 368	\$ 1,307	\$ 830	\$ 2,029
Interest on long-term debt (including capital lease obligations)*	2,115	231	357	299	1,228
Operating leases	677	173	256	138	110
Unconditional purchase obligations	1,991	1,621	352	16	2
Pension and postretirement contributions	509	127	75	82	225
Total contractual cash obligations	<u>\$ 9,826</u>	<u>\$ 2,520</u>	<u>\$ 2,347</u>	<u>\$ 1,365</u>	<u>\$ 3,594</u>

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

Unconditional purchase obligations include amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity, and delivery. Pension and postretirement contributions include amounts expected to be paid by the Company to the plans. Other noncurrent liabilities primarily consist of pension and postretirement obligations included in the table and other amounts whose settlement dates cannot be reasonably determined.

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 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.

Table of Contents

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.

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 reporting 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, 2006, 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 reporting 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.

The discount rate used by the Company is based on the interest rate of noncallable high-quality corporate bonds, with appropriate consideration of the Company's pension plans' participants' demographics and benefit payment terms. At July 31, 2006, the Company increased its discount rate on U.S. plans to 6.50% from 5.50% at July 31, 2005. The increase of 100 basis points was consistent with the changes in published bond indices as adjusted for the pension plan liability profile. The change decreased the Company's U.S. projected benefit obligation at September 30, 2006 by approximately \$300 million.

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 July 31, 2006, the Company decreased its expected long-term return on U.S. plan assets from 8.75% to 8.25%.

Table of Contents

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, 2006, the Company had approximately \$22 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.

Primarily as a result of a \$180 million voluntary cash contribution in fiscal year 2005, the Company has recorded a prepaid benefit cost of \$240 million for its U.S. pension plans as of September 30, 2006 in accordance with SFAS No. 87 "Employers' Accounting for Pensions." SFAS No. 87 requires that an asset be recognized if the net periodic pension cost is less than the amounts the employer has contributed to the plan and a liability be recognized if the net periodic pension cost exceeds amounts the employer has contributed to the plan. The funded status of a retirement plan is the difference between the projected benefit obligation and the fair value of its plan assets. The projected benefit obligation is the actuarial present value of all benefits attributed by the plan's benefit formula to employee service. At September 30, 2006, the Company's U.S. pension plans were underfunded by \$165 million since the projected benefit obligation exceeded the fair value of its plan assets. Material differences may result between the funded status of a retirement plan and the recorded asset or liability due to certain items that have an immediate impact on the projected benefit obligation, but are recognized over a longer period of time in the net periodic pension cost. For example, at September 30, 2006, the Company had an unrecognized net actuarial loss on its U.S. pension plans of \$282 million. This actuarial loss is included in the projected benefit obligation at September 30, 2006, but in accordance with SFAS No. 87, in general, the amount of the loss is amortized to net periodic pension expense over the average remaining service period of the employees in the plan where the loss was generated.

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, 2006, the Company had recorded \$162 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 foreign 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, 2006, the Company had a valuation allowance of \$355 million, of which \$215 million relates to net operating loss carryforwards, primarily in Germany, Italy, and the Netherlands, for which sustainable taxable income has not been demonstrated; \$82 million relates to net capital loss carryforwards, primarily in the U.S., for which future capital gains are not assured; and \$58 million of other deferred tax assets. The Company does not provide additional U.S. income taxes on undistributed

earnings of consolidated foreign subsidiaries included in stockholders' equity. Such earnings could become taxable upon the sale or liquidation of these foreign 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 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)." SFAS No. 158 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 fiscal year 2007 year-end balance sheet, with changes in the funded status recognized through other comprehensive income in the year in which they occur. Additionally, SFAS No. 158 requires the Company to measure the funded status of a plan as of the date of its fiscal year-end. The Company is assessing the potential impact the adoption of SFAS No. 158 will have on its consolidated financial condition.

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 year 2008. The Company is assessing the potential impact the adoption of SFAS No. 157 will have on its consolidated financial condition, results of operations or cash flows.

In June 2006, the FASB issued 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 is assessing the potential impact that the adoption of FIN 48 will have on its previously established tax reserves, consolidated financial condition, results of operations or cash flows.

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations," which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated even though uncertainty exists about the timing and/or method of settlement. Under FIN 47, companies must accrue for costs related to legal obligations associated with the retirement, disposal, removal or abandonment of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event and if the liability's fair value can be reasonably estimated. In the fourth quarter of fiscal year 2006, the Company adopted FIN 47 and recorded a non-cash, after-tax charge of \$7 million, which is reported in the fiscal year 2006 consolidated statement of income as a cumulative effect of a change in accounting principle. The charge primarily relates to legal obligations at owned properties in the power solutions business.

Effective October 1, 2005, the Company adopted SFAS No. 123(R), "Share Based Payment" (SFAS No. 123(R)) using the modified prospective method. The modified prospective method requires compensation cost to be recognized beginning on the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. As such, prior periods will not reflect restated amounts. The cumulative impact of adopting SFAS 123(R) was not significant to the Company's operating results since the Company had previously adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure - an amendment of SFAS 123."

RISK MANAGEMENT

The Company selectively uses financial instruments to reduce market risk associated with changes in foreign currency, interest rates and commodity prices. 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 foreign 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 hedging contracts, the Company aligns the critical terms of its derivative contracts with the terms of the supply contracts.

For net investment hedges, the Company assesses its net investment positions in the foreign 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 foreign operation does not exceed the Company's net investment positions in the respective foreign 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 several foreign currency denominated debt obligations and cross-currency interest rate swaps to 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 (USD) equivalents of net foreign exchange contracts (hedging transactional exposure) and non-USD 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 USD relative to all other currencies on September 30, 2006.

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 foreign subsidiaries described above (in millions, in USD equivalent):

	September 30, 2006				
	Non-USD Financial Instruments Designated as Hedges of:		Net Amounts of Instruments Long/ (Short)	Foreign Exchange Gain/(Loss) from:	
	Transactional Foreign Exposure Long/ (Short)	Translation Foreign Exposure Long/ (Short)		10% Appreciation of USD	10% Depreciation of USD
Brazilian real	\$ —	\$ (34)	\$ (34)	\$ 3	\$ (3)
British pound	225	(30)	195	(19)	19
Canadian dollar	167	(27)	140	(14)	14
Chinese renminbi	—	65	65	(7)	7
Czech koruna	332	(79)	253	(25)	25
Danish kroner	105	8	113	(11)	11
Euro	(440)	(715)	(1,155)	116	(116)
Japanese yen	(55)	11	(44)	4	(4)
Mexican peso	99	8	107	(11)	11
Polish zloty	(36)	(2)	(38)	4	(4)
Slovenska koruna	118	(3)	115	(12)	12
South African rand	10	14	24	(2)	2
Swiss franc	47	8	55	(6)	6
Other	38	15	53	(5)	5
Total	<u>\$ 610</u>	<u>\$ (761)</u>	<u>\$ (151)</u>	<u>\$ 15</u>	<u>\$ (15)</u>

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, as needed, uses interest rate swaps to modify its exposure to interest rate movements. In accordance with SFAS No. 133, the swaps qualify and are designated as cash flow hedges or fair value hedges. 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 \$6 million.

In September 2005, following a definitive merger agreement unanimously approved by the Boards of Directors of the Company and York, the Company entered into three forward treasury lock agreements to reduce the market risk associated with changes in interest rates associated with the Company's anticipated fixed-rate note issuance to finance the acquisition of York. The three forward treasury lock agreements, which had a combined notional amount of \$1.3 billion, fixed a portion of the future interest cost for 5-year, 10-year and 30-year bonds. The treasury lock agreements were designated as cash flow hedges. The agreements were unwound at the time the bonds were issued. The fair value of each treasury lock agreement, or the difference between the treasury lock reference rate and the fixed rate at time of note issuance, is amortized to interest expense over the life of the respective note issuance.

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 2006 related solely to environmental compliance were not material. At September 30, 2006, the Company had an accrued liability of \$34 million relating to environmental matters compared with \$28 million one year ago. 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.

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 19 to the consolidated financial statements). Costs related to such matters were not material to the periods presented.

QUARTERLY FINANCIAL DATA

In millions, except per share data;
(unaudited)

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Full Year</u>
2006					
Net sales	\$7,528	\$8,167	\$8,390	\$8,150	\$32,235
Gross profit	917	1,053	1,213	1,237	4,420
Income before the cumulative effect of a change in accounting principle	165	165	338	367	1,035
Net income	165	165	338	360	1,028
Earnings per share before the cumulative effect of a change in accounting principle					
Basic*	0.86	0.85	1.73	1.87	5.32
Diluted*	0.85	0.84	1.71	1.85	5.26
Earnings per share					
Basic*	0.86	0.85	1.73	1.84	5.29
Diluted*	0.85	0.84	1.71	1.82	5.23
2005					
Net sales	\$6,618	\$6,899	\$7,062	\$6,900	\$27,479
Gross profit	806	827	900	949	3,482
Income before the cumulative effect of a change in accounting principle	168	203	255	283	909
Net income	168	203	255	283	909
Earnings per share before the cumulative effect of a change in accounting principle					
Basic*	0.88	1.06	1.33	1.47	4.74
Diluted*	0.87	1.04	1.31	1.45	4.68
Earnings per share					
Basic*	0.88	1.06	1.33	1.47	4.74
Diluted*	0.87	1.04	1.31	1.45	4.68

* Due to the use of the weighted-average shares outstanding for each quarter for computing earnings per share, the sum of the quarterly per share amounts may not equal the per share amount for the year.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Risk Management” included in Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	44
Consolidated Statements of Income for the years ended September 30, 2006, 2005 and 2004	46
Consolidated Statements of Financial Position as of September 30, 2006 and 2005	47
Consolidated Statements of Cash Flows for the years ended September 30, 2006, 2005 and 2004	48
Consolidated Statements of Shareholders’ Equity for the years ended September 30, 2006, 2005 and 2004	49
Notes to Consolidated Financial Statements — September 30, 2006	50
Valuation and Qualifying Accounts	88



PricewaterhouseCoopers LLP
100 E. Wisconsin Ave., Suite 1800
Milwaukee WI 53202
Telephone (414) 212 1600

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Johnson Controls, Inc.'s 2006 and 2005 consolidated financial statements and of its internal control over financial reporting as of September 30, 2006, and an audit of its 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Johnson Controls, Inc. and its subsidiaries at September 30, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1 and 12 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," effective October 1, 2005. In addition, as discussed in Notes 1 and 5 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," in the fourth quarter of 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of September 30, 2006 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards

Table of Contents

require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
December 1, 2006

Johnson Controls, Inc.
Consolidated Statements of Income

(In millions, except per share data)	Year ended September 30,		
	2006	2005	2004
Net sales			
Products and systems*	\$ 26,570	\$ 24,337	\$ 21,653
Services*	5,665	3,142	2,950
	32,235	27,479	24,603
Cost of sales			
Products and systems	23,737	21,463	18,911
Services	4,078	2,534	2,414
	27,815	23,997	21,325
Gross profit	4,420	3,482	3,278
Selling, general and administrative expenses	2,941	2,206	2,145
Restructuring costs	197	210	82
Japanese pension gain	—	—	(84)
Operating income	1,282	1,066	1,135
Interest expense — net	(248)	(108)	(98)
Equity income	112	72	97
Miscellaneous — net	(8)	(27)	(64)
Other income (expense)	(144)	(63)	(65)
Income before income taxes and minority interests	1,138	1,003	1,070
Provision for income taxes	63	205	251
Minority interests in net earnings of subsidiaries	42	41	52
Income from continuing operations	1,033	757	767
Income from discontinued operations, net of income taxes	2	16	51
Gain on sale of discontinued operations, net of income taxes	—	136	—
Income before the cumulative effect of a change in accounting principle	1,035	909	818
Cumulative effect of a change in accounting principle, net of income taxes	(7)	—	—
Net income	<u>\$ 1,028</u>	<u>\$ 909</u>	<u>\$ 818</u>
Earnings available for common shareholders	<u>\$ 1,028</u>	<u>\$ 909</u>	<u>\$ 816</u>
Earnings per share from continuing operations			
Basic	\$ 5.31	\$ 3.95	\$ 4.08
Diluted	\$ 5.25	\$ 3.90	\$ 3.98
Earnings per share before the cumulative effect of a change in accounting principle			
Basic	\$ 5.32	\$ 4.74	\$ 4.35
Diluted	\$ 5.26	\$ 4.68	\$ 4.24
Earnings per share			
Basic	\$ 5.29	\$ 4.74	\$ 4.35
Diluted	\$ 5.23	\$ 4.68	\$ 4.24

* Products and systems consist of automotive experience and power solutions products and systems and building efficiency installed systems. Services are building efficiency technical and facility management services.

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

Johnson Controls, Inc.
Consolidated Statements of Financial Position

(In millions, except par value and share data)	September 30,	
	2006	2005
Assets		
Cash and cash equivalents	\$ 293	\$ 171
Accounts receivable, less allowance for doubtful accounts of \$80 and \$47, respectively	5,697	4,987
Inventories	1,731	983
Other current assets	1,543	998
Current assets	<u>9,264</u>	<u>7,139</u>
Property, plant and equipment — net	3,968	3,581
Goodwill	5,910	3,733
Other intangible assets — net	799	289
Investments in partially-owned affiliates	463	445
Other noncurrent assets	1,517	957
Total assets	<u>\$ 21,921</u>	<u>\$ 16,144</u>
Liabilities and Shareholders' Equity		
Short-term debt	\$ 209	\$ 684
Current portion of long-term debt	368	81
Accounts payable	4,216	3,938
Accrued compensation and benefits	919	704
Accrued income taxes	229	44
Other current liabilities	2,205	1,390
Current liabilities	<u>8,146</u>	<u>6,841</u>
Long-term debt	4,166	1,577
Postretirement health and other benefits	349	159
Minority interests in equity of subsidiaries	129	196
Other noncurrent liabilities	1,776	1,313
Long-term liabilities	<u>6,420</u>	<u>3,245</u>
Commitments and contingencies (Note 19)		
Common stock, \$.04 1/6 par value		
shares authorized: 600,000,000		
shares issued: 2006 - 196,011,787; 2005 - 193,253,563	8	8
Capital in excess of par value	1,273	1,092
Retained earnings	5,715	4,905
Treasury stock, at cost (2006 - 237,798 shares; 2005 - 382,628 shares)	(7)	(7)
Accumulated other comprehensive income	366	60
Shareholders' equity	<u>7,355</u>	<u>6,058</u>
Total liabilities and shareholders' equity	<u>\$ 21,921</u>	<u>\$ 16,144</u>

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

Johnson Controls, Inc.
Consolidated Statements of Cash Flows

(In millions)	September 30,		
	2006	Revised 2005	2004
Operating Activities			
Net income	\$ 1,028	\$ 909	\$ 818
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	661	615	572
Amortization of intangibles	44	24	22
Equity in earnings of partially-owned affiliates, net of dividends received	(15)	(47)	(19)
Deferred income taxes	(404)	(25)	100
Minority interests in net earnings of subsidiaries	42	41	52
Non-cash restructuring costs	51	46	7
Pension contributions in excess of expense	—	(138)	—
Gain on sale of discontinued operations	—	(136)	—
Japanese pension settlement gain	—	—	(84)
Other	60	26	(26)
Changes in working capital, excluding acquisitions and divestitures of businesses			
Receivables	244	(771)	(346)
Inventories	(77)	(64)	(3)
Other current assets	(32)	(114)	33
Restructuring reserves	59	102	42
Accounts payable and accrued liabilities	(360)	328	225
Accrued income taxes	116	81	14
Cash provided by operating activities of continuing operations	<u>1,417</u>	<u>877</u>	<u>1,407</u>
Investing Activities			
Capital expenditures	(711)	(664)	(817)
Sale of property, plant and equipment	90	39	51
Acquisition of businesses, net of cash acquired	(2,629)	(328)	(420)
Business divestitures	—	679	—
Settlement of cross-currency interest rate swaps	66	(62)	(143)
Changes in long-term investments	108	(2)	(79)
Cash used by investing activities	<u>(3,076)</u>	<u>(338)</u>	<u>(1,408)</u>
Financing Activities			
Increase (decrease) in short-term debt — net	(531)	(106)	660
Increase in long-term debt	2,739	83	214
Repayment of long-term debt	(359)	(311)	(727)
Payment of cash dividends	(218)	(192)	(171)
Proceeds from the exercise of stock options	97	66	59
Other	13	(36)	(25)
Cash provided (used) by financing activities	<u>1,741</u>	<u>(496)</u>	<u>10</u>
Effect of exchange rate changes on cash and cash equivalents	40	29	6
Increase in cash and cash equivalents	<u>\$ 122</u>	<u>\$ 72</u>	<u>\$ 15</u>

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

Table of Contents

Johnson Controls, Inc. Consolidated Statements of Shareholders' Equity

(In millions, except per share data)	Total	Preferred Stock	Employee Stock Ownership Plan - Unearned Compensation	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)
At September 30, 2003	\$ 4,261	\$ 97	\$ (23)	\$ 15	\$ 748	\$ 3,541	\$ (10)	\$ (107)
Comprehensive income:								
Net income	818	—	—	—	—	818	—	—
Foreign currency translation adjustments	171	—	—	—	—	—	—	171
Realized and unrealized gains/losses on derivatives	11	—	—	—	—	—	—	11
Minimum pension liability adjustment	(3)	—	—	—	—	—	—	(3)
Other comprehensive income	179							
Comprehensive income	997							
Reduction of guaranteed ESOP debt	23	—	23	—	—	—	—	—
Cash dividends								
Series D preferred (\$0.99 per one ten-thousandth of a share), net of tax benefit	(2)	—	—	—	—	(2)	—	—
Common (\$0.90 per share)	(169)	—	—	—	—	(169)	—	—
Par value reduction	—	—	—	(7)	7	—	—	—
Conversion of preferred stock to common stock	—	(96)	—	—	96	—	—	—
Other, including options exercised	96	(1)	—	—	102	—	(5)	—
At September 30, 2004	5,206	—	—	8	953	4,188	(15)	72
Comprehensive income:								
Net income	909	—	—	—	—	909	—	—
Foreign currency translation adjustments	(29)	—	—	—	—	—	—	(29)
Realized and unrealized gains/losses on derivatives	34	—	—	—	—	—	—	34
Minimum pension liability adjustment	(17)	—	—	—	—	—	—	(17)
Other comprehensive loss	(12)							
Comprehensive income	897							
Cash dividends								
Common (\$1.00 per share)	(192)	—	—	—	—	(192)	—	—
Other, including options exercised	147		—	—	139	—	8	—
At September 30, 2005	6,058	—	—	8	1,092	4,905	(7)	60
Comprehensive income:								
Net income	1,028	—	—	—	—	1,028	—	—
Foreign currency translation adjustments	274	—	—	—	—	—	—	274
Realized and unrealized gains/losses on derivatives	20	—	—	—	—	—	—	20
Minimum pension liability adjustment	12	—	—	—	—	—	—	12

Other comprehensive income	306								
Comprehensive income	1,334								
Cash dividends									
Common (\$1.12 per share)	(218)	—	—	—	—	(218)	—	—	—
Other, including options exercised	181	—	—		181	—	—	—	—
At September 30, 2006	\$ 7,355	\$ —	\$ —	\$ 8	\$ 1,273	\$ 5,715	\$ (7)	\$ —	\$ 366

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

Johnson Controls, Inc.
Notes to Consolidated Financial Statements
September 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Johnson Controls, Inc. and its domestic and foreign subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany transactions have been eliminated. Investments in partially-owned affiliates are accounted for by the equity method when the Company's interest exceeds 20%. Under certain criteria as provided for in Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46(R), "Consolidation of Variable Interest Entities," the Company may consolidate a partially-owned affiliate when it has less than a 50% ownership. Gains and losses from the translation of substantially all foreign currency financial statements are recorded in the accumulated other comprehensive income account within shareholders' equity.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The fair values of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate their carrying values. The fair value of long-term debt, which was \$4.6 billion and \$1.7 billion at September 30, 2006 and 2005, respectively, was determined using market quotes. See Note 11 for fair value of derivative instruments.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables

Receivables consist of amounts billed and currently due from customers and unbilled costs and accrued profits related to revenues on long-term contracts that have been recognized for accounting purposes but not yet billed to customers. The Company extends credit to customers in the normal course of business and maintains an allowance for doubtful accounts resulting from the inability or unwillingness of customers to make required payments. The allowance for doubtful accounts is based on historical experience, existing economic conditions and any specific customer collection issues the Company has identified.

Percentage-of-Completion Contracts

The building efficiency business records certain long term contracts under the percentage-of-completion 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 completion. The Company records costs and earnings in excess of billings on uncompleted contracts within accounts receivable — net and billings in excess of costs and earnings on uncompleted contracts within other current liabilities in the consolidated statements of financial position. Amounts included within accounts receivable — net related to these contracts were \$455 million and \$315 million at September 30, 2006 and 2005, respectively. Amounts included within other current liabilities were \$314 million and \$226 million at September 30, 2006 and 2005, respectively.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using either the last-in, first-out (LIFO) method or the first-in, first-out (FIFO) method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs.

Pre-Production Costs Related to Long-Term Supply Arrangements

The Company's policy for engineering, research and development, and other design and development costs related to products that will be sold under long-term supply arrangements requires such costs to be expensed as incurred. Customer reimbursements are recorded as an increase in cash and a reduction of selling, general and administrative expense when reimbursement from the customer is received. Costs for molds, dies, and other tools used to make products that will be sold under long-term supply arrangements are capitalized within property, plant and equipment if the Company has title to the assets or has the non-cancelable right to use the assets during the term of the supply arrangement. Capitalized items, if specifically designed for a supply arrangement, are amortized over the term of the arrangement; otherwise, amounts are amortized over the estimated useful lives of the assets. The carrying values of assets capitalized in accordance with the foregoing policy are periodically reviewed for evidence of impairment. At September 30, 2006 and 2005, approximately \$270 million and \$268 million, respectively, of costs for molds, dies and other tools were capitalized within property, plant and equipment which represented assets to which the Company had title. In addition, at September 30, 2006 and 2005, the Company recorded within other current assets approximately \$136 million and \$280 million, respectively, of costs for molds, dies and other tools for which customer reimbursement is assured.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. The estimated useful lives range from 10 to 40 years for buildings and improvements and from 3 to 20 years for machinery and equipment.

The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

Goodwill and Other Intangible Assets

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Company performs an annual goodwill impairment review of its operating segments during the fourth fiscal quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired, using a fair-value method based on management's judgments and assumptions. The fair value represents the amount at which an operating segment 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 historical multiples of earnings and 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 reporting 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 in the fourth quarter of fiscal year 2006 indicated that the estimated fair value of each operating segment exceeded its corresponding carrying amount, including recorded goodwill and, as such, no impairment exists.

Indefinite lived other intangible assets are also subject to at least annual impairment testing. A considerable amount of management judgment and assumptions are required in performing the impairment tests. The Company believes the judgments and assumptions used in the impairment tests are reasonable and no impairment exists at September 30, 2006.

**Johnson Controls, Inc.
Notes to Consolidated Financial Statements**

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including property, plant and equipment and other intangible assets with definite lives, for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. At September 30, 2006, the Company does not have any material long-lived assets whose recovery is at risk.

Revenue Recognition

The Company's building efficiency business recognizes revenue from long-term systems installation contracts over the contractual period under the percentage-of-completion method of accounting. This method of accounting recognizes sales and gross profit as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. 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 amount of accounts receivable due after one year is not significant.

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.

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.

Research and Development Costs

Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within selling, general and administrative expenses in the consolidated statement of income. Such expenditures for the years ended September 30, 2006, 2005 and 2004 were \$743 million, \$817 million and \$844 million, respectively.

A portion of the costs associated with these activities is reimbursed by customers and, for the years ended September 30, 2006, 2005 and 2004, were \$323 million, \$402 million and \$352 million, respectively.

Earnings Per Share

Basic earnings per share are computed by dividing net income, after deducting dividend requirements on the Series D Convertible Preferred Stock, by the weighted average number of common shares outstanding. Diluted earnings per share are computed by dividing net income, after deducting the after-tax compensation expense that would arise from the assumed conversion of the Series D Convertible Preferred Stock, by diluted weighted average shares outstanding. Diluted weighted average shares assume the conversion of the Series D Convertible Preferred Stock, if dilutive, plus the dilutive effect of common stock equivalents which would arise from the exercise of stock options. Effective December 31, 2003, the Company converted all the outstanding Series D Convertible Preferred Stock (see Note 13).

Foreign Currency Translation

Substantially all of the Company's international operations use the respective local currency as the functional currency. Assets and liabilities of international entities have been translated at period-end exchange rates, and income and expenses have been translated using average exchange rates for the period.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

Accumulated Other Comprehensive Income

Accumulated other comprehensive income is defined as the sum of net income and all other non-owner changes in equity. The components of the non-owner changes in equity, or accumulated other comprehensive income, were as follows (in millions, net of tax):

	September 30,	
	2006	2005
Foreign currency translation adjustments	\$ 403	\$ 129
Realized and unrealized gains/losses on derivatives	63	43
Minimum pension liability adjustment	(100)	(112)
Accumulated other comprehensive income	<u>\$ 366</u>	<u>\$ 60</u>

Derivative Financial Instruments

The Company has written policies and procedures that place all financial instruments under the direction of corporate treasury and restrict all derivative transactions to those intended for hedging purposes. The use of financial instruments for speculative purposes is strictly prohibited. The Company uses financial instruments to manage the market risk from changes in foreign exchange rates, commodity prices, compensation liabilities and interest rates.

The fair values of all derivatives are recorded in the consolidated statement of financial position. The change in a derivative's fair value is recorded each period in current earnings or accumulated other comprehensive income (OCI), depending on whether the derivative is designated as part of a hedge transaction and if so, the type of hedge transaction.

The Company hedges 70% to 90% of the nominal amount of each of its known foreign exchange transactional exposures. The Company primarily enters into forward exchange contracts to reduce the earnings and cash flow impact of non-functional currency denominated receivables and payables. Gains and losses resulting from these contracts 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. Gains and losses on these contracts are recorded in miscellaneous — net in the consolidated statement of income and are recognized in the same period as gains and losses on the hedged items.

Cash Flow Hedges - The Company selectively hedges anticipated transactions that are subject to foreign exchange exposure or commodity price exposure, primarily using foreign currency exchange contracts and commodity contracts, respectively. These instruments are designated as cash flow hedges in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, No. 138 and No. 149 and are recorded in the consolidated statement of financial position at fair value. The effective portion of the contracts' gains or losses due to changes in fair value are initially recorded as a component of accumulated OCI and are subsequently reclassified into earnings when the hedged transactions, typically sales or costs related to sales, occur and affect earnings. These contracts are highly effective in hedging the variability in future cash flows attributable to changes in currency exchange rates or commodity price changes. The Company also selectively uses interest rate swaps to modify its exposure to interest rate movements. These swaps also qualify as cash flow hedges, with changes in fair value recorded as a component of accumulated OCI. Interest expense is recorded in earnings at the fixed rate set forth in the swap agreement. As of September 30, 2005, the Company entered into three forward treasury lock agreements designated as cash flow hedges to reduce the market risk associated with changes in interest rates related to the Company's fixed-rate note issuance (see Notes 10 and 11). There were no interest rate swaps designated as cash flow hedges outstanding at September 30, 2006.

For the years ended September 30, 2006, 2005, and 2004, the net amounts recognized in earnings due to ineffectiveness and amounts excluded from the assessment of hedge effectiveness were not material. The amount reported as realized and unrealized gains/losses on derivatives in the accumulated OCI account within shareholders' equity represents the net gain/loss on derivatives designated as cash flow hedges.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

Fair Value Hedges — The Company had two interest rate swaps outstanding at September 30, 2006 and 2005 designated as a hedge of the fair value of a portion of fixed-rate bonds (see Note 11). Both the swap and the hedged portion of the debt are recorded in the consolidated statement of financial position. The change in fair value of the swaps exactly offsets the change in fair value of the hedged debt, with no net impact on earnings.

Net Investment Hedges - The Company has cross-currency interest rate swaps and foreign currency-denominated debt obligations that are designated as hedges of the foreign currency exposure associated with its net investments in foreign operations. The currency effects of the debt obligations are reflected in the accumulated OCI account where they offset translation gains and losses recorded on the Company's net investments in Europe and Japan. The cross-currency interest rate swaps are recorded in the consolidated statement of financial position at fair value, with changes in value attributable to changes in foreign exchange rates recorded in the foreign currency translation adjustments component of accumulated OCI. Net interest payments or receipts from the interest rate swaps are recorded as adjustments to interest expense in earnings on a current basis. A net loss of approximately \$29 million associated with hedges of net investments in foreign operations was recorded in the accumulated OCI account for the period ended September 30, 2006. A net gain of approximately \$5 million associated with hedges of net investments in foreign operations was recorded in the accumulated OCI account for the period ended September 30, 2005.

New Accounting Pronouncements

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)." SFAS No. 158 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 fiscal year 2007 year-end balance sheet, with changes in the funded status recognized through other comprehensive income in the year in which they occur. Additionally, SFAS No. 158 requires the Company to measure the funded status of a plan as of the date of its fiscal year-end. The Company is assessing the potential impact that the adoption of SFAS No. 158 will have on its consolidated financial condition.

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 us beginning in fiscal year 2008. The Company is assessing the potential impact that the adoption of SFAS No. 157 will have on its consolidated financial condition, results of operations or cash flows.

In June 2006, the FASB issued 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 is assessing the potential impact that the adoption of FIN 48 will have on its previously established tax reserves, consolidated financial condition, results of operations or cash flows.

Effective for the year ended September 30, 2006, the Company adopted FIN 47, "Accounting for Conditional Asset Retirement Obligations," which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated even though uncertainty exists about the timing and/or method of settlement. See Note 5 for the impact of the Company's adoption of FIN 47 in the fourth quarter of fiscal year 2006.

Effective October 1, 2005, the Company adopted SFAS No. 123(R), "Share Based Payment" (SFAS No. 123(R)), using the modified prospective method. See Note 12 for additional information regarding stock-based compensation.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

Reclassification

Certain prior year amounts have been revised to conform to the current year's presentation. Specifically, the Company has revised its consolidated statements of cash flows for the years ended September 30, 2005 and 2004 to combine cash flows from discontinued operations with cash flows from continuing operations. The Company had previously separated these amounts from continuing operations and reported them as cash flows from discontinued operations.

2. ACQUISITIONS

On December 9, 2005, the Company completed its acquisition of York International Corporation (York). The Company paid \$56.50 for each outstanding share of York common stock. The total cost of the acquisition, excluding cash acquired, was approximately \$3.1 billion, including the assumption of \$563 million of debt, change in control payments and direct costs of the transaction. The Company initially financed the acquisition by issuing unsecured commercial paper, which was refinanced with long-term debt on January 17, 2006. York's results of operations have been included in the consolidated financial statements since the date of acquisition.

The acquisition of York enabled the Company to become a single source supplier of integrated products and services for building owners to optimize comfort and energy efficiency. The acquisition enhanced the Company's heating, ventilating, and air conditioning equipment (HVAC), controls, fire and security capabilities and positions the Company in a strategic leadership position in the global building environment industry which offers significant growth potential.

The following table summarizes the preliminary fair values of the York assets acquired and liabilities assumed at the date of acquisition (in millions):

Current assets, net of cash acquired	\$ 1,928
Property, plant and equipment	399
Goodwill	2,047
Other intangible assets	502
Other noncurrent assets	382
Total assets	5,258
Current liabilities	1,365
Noncurrent liabilities	1,360
Total liabilities	2,725
Net assets acquired	<u>\$ 2,533</u>

In conjunction with the York acquisition, the Company recorded goodwill of approximately \$2.0 billion, none of which is tax deductible, with allocation to the building efficiency business reporting segments as follows: \$422 million to North America systems; \$594 million to North America service; \$473 million to North America unitary products group; \$147 million to Europe; and \$411 million to rest of world. In addition, intangible assets subject to amortization were valued at \$246 million with useful lives between 1.5 and 30 years, of which \$194 million was assigned to customer relationships with useful lives between 20 and 30 years. Intangible assets not subject to amortization, primarily trademarks, were valued at \$256 million. The York purchase price allocation has been substantially completed as of September 30, 2006, and final adjustments, if any, are not expected to be material.

The Company has recorded restructuring reserves of approximately \$158 million related to the York acquisition, comprised of \$80 million of severance costs, \$62 million related to contract terminations and facility closures and \$16 million of other direct costs associated with exiting certain activities of the acquired business. These restructuring reserves include workforce reductions of approximately 3,000 employees and calls for two manufacturing plants to be closed while other plants and branch offices will be merged into existing facilities of the Company. The costs of these restructuring activities were recorded as costs of the acquisition and were provided for in accordance with FASB Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." The Company anticipates that the restructuring actions will be completed by the end of the third quarter of fiscal year 2007. As of September 30, 2006, \$59 million of the restructuring reserves have been utilized, including

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

severance (\$30 million), contract termination and facility closure costs (\$23 million) and other costs associated with exiting certain activities of the acquired business (\$6 million).

Had the York acquisition been completed on October 1, 2004, the Company's unaudited pro forma consolidated results of operations would have been as follows (in millions, except per share amounts):

	Year Ended September 30,	
	2006	2005
Net sales	\$32,983	\$31,901
Income from continuing operations	1,028	694
Net income	1,023	851
Earnings per share from continuing operations		
Basic	\$ 5.29	\$ 3.62
Diluted	\$ 5.23	\$ 3.57
Earnings per share		
Basic	\$ 5.26	\$ 4.44
Diluted	\$ 5.20	\$ 4.38

The pro forma information for the year ended September 30, 2005 includes expense of approximately \$51 million for the amortization of the inventory write-up. The pro forma information for the year ended September 30, 2006 includes the reversal of approximately \$51 million related to the amortization of the inventory write-up that was included in the Company's consolidated operating results. The pro forma information does not purport to be indicative of the results that actually would have been achieved if the operations were combined during the periods presented and is not intended to be a projection of future results or trends.

Also in fiscal year 2006, the Company completed six additional acquisitions for a combined purchase price of \$111 million, including the assumption of debt, none of which were material to the Company's consolidated financial statements. In connection with these acquisitions, the Company recorded goodwill of \$57 million.

In fiscal year 2005, the Company completed six acquisitions for a combined purchase price of approximately \$333 million, including the assumption of debt. The most significant of these acquisitions are as follows:

- In July 2005, the Company completed the acquisition of Delphi Corporation's global battery business. This acquisition enables the Company to participate in the rapidly growing Asian automotive battery market, particularly in China.
- In June 2005, the Company completed its acquisition of USI Companies, Inc. This acquisition provides clients with an expanded, integrated mix of global corporate real estate services and enables the Company to further align new and existing customers' real estate assets with their business objectives.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

The following table summarizes the fair values of the assets acquired and liabilities assumed at the dates of acquisition in fiscal year 2005 (in millions).

Current assets, net of cash acquired	\$ 163
Property, plant and equipment	134
Goodwill	155
Other intangible assets	61
Other noncurrent assets	63
Total assets	576
Current liabilities	179
Long-term liabilities	69
Total liabilities	248
Net assets acquired	<u>\$ 328</u>

The operating results of these acquisitions have been included in the Company's consolidated financial statements from the dates of acquisition. Pro forma information reflecting these acquisitions has not been disclosed as the impact on consolidated net income was not material.

In conjunction with the fiscal year 2005 acquisitions, the Company recorded goodwill of \$155 million, with allocation to the reporting segments as follows: \$11 million, all of which is tax deductible, to building efficiency — North America service; \$50 million, all of which is tax deductible, to the building efficiency — global facilities management; \$8 million, none of which is tax deductible, to automotive experience — North America; and \$86 million, \$82 million of which is tax deductible, to power solutions. In addition, intangible assets subject to amortization, all of which were customer relationships, were valued at \$61 million with useful lives between 10 and 50 years.

The Company has recorded restructuring reserves of \$67 million related to the Delphi battery acquisition. These restructuring reserves included workforce reductions of approximately 1,500 employees and called for three plants to be closed or merged into existing facilities of the Company. The Company anticipates that the restructuring actions will be completed by the end of the first quarter of fiscal year 2007. As of September 30, 2006, \$30 million of these restructuring reserves have been utilized.

In fiscal year 2004, the Company acquired 100% ownership of its power solutions joint venture with Grupo IMSA, S.A. de C.V. (Latin American JV). The purchase price for the remaining 51% interest in the joint venture was \$525 million, including the assumption of debt. The acquisition was funded initially with short-term debt. Management believed that the acquisition was in line with the Company's growth strategies and would provide new opportunities to strengthen the Company's global leadership position in the automotive battery industry.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

The following table summarizes the fair values of the assets acquired and liabilities assumed in the Latin American JV acquisition, which was effective on August 1, 2004 (in millions).

Current assets, net of cash acquired	\$ 164
Property, plant and equipment	219
Goodwill	458
Other intangible assets	37
Other noncurrent assets	4
Total assets	882
Current liabilities	168
Long-term liabilities	214
Total liabilities	382
Less historical investment balance in partially-owned affiliate	117
Net assets acquired	<u>\$ 383</u>

The operating results of the Latin American JV have been included in the Company's consolidated financial statements from the date of acquisition. For periods prior to the acquisition, the Company's investment was accounted for by the equity method. Pro forma information reflecting this acquisition has not been disclosed as the impact on consolidated net income was not material.

In conjunction with the Latin American JV acquisition, the Company recorded goodwill of \$458 million, none of which is tax deductible, and assigned it to the power solutions reporting segment. In addition, intangible assets subject to amortization, all of which were customer relationships, were valued at \$12 million with a weighted average useful life of approximately 39 years. Intangible assets not subject to amortization, primarily trademarks, were valued at \$25 million.

3. DISCONTINUED OPERATIONS

In December 2005, the Company acquired York's Bristol Compressor business as part of its acquisition of York (see Note 2) and engaged a firm to actively market the business. The Bristol Compressor business included Scroll Technologies, Inc., an unconsolidated joint venture with Carrier Corporation that was divested in September 2006. The Company continues to market the remainder of the Bristol Compressor business.

In March 2005, the Company completed the sale of its Johnson Controls World Services, Inc. subsidiary, which had been included in the Company's former building efficiency segment, to IAP Worldwide Services, Inc. for \$260 million. The sale resulted in a gain of approximately \$139 million (\$85 million after-tax), net of related costs.

In February 2005, the Company completed the sale of its engine electronics business, which had been included in the automotive experience — Europe segment, to Valeo for € 316 million. This non-core business was acquired in fiscal year 2002 from Sagem SA. The sale of the engine electronics business resulted in a gain of \$81 million (\$51 million after-tax), net of related costs.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

The following summarizes the net sales and income before income taxes and minority interests of the discontinued operations for the years ended September 30, 2006, 2005, and 2004 (in millions):

	Year Ended September 30,		
	2006	2005	2004
Net sales	\$ 178	\$ 540	\$ 1,190
Income before income taxes and minority interests	3	26	82
Earnings per share from discontinued operations			
Basic	\$ 0.01	\$ 0.08	\$ 0.27
Diluted	\$ 0.01	\$ 0.08	\$ 0.26
Earnings per share from gain on sale of discontinued operations			
Basic	\$ —	\$ 0.71	\$ —
Diluted	\$ —	\$ 0.70	\$ —

The consolidated statement of financial position at September 30, 2006 includes assets of discontinued operations of \$81 million within other current assets, which consisted of accounts receivable — net (\$27 million), inventories (\$44 million), other current assets (\$7 million) and property, plant and equipment — net (\$3 million). Liabilities of discontinued operations at September 30, 2006 within other current liabilities totaled \$36 million, which consisted of accounts payable (\$26 million) and other current liabilities (\$10 million). At September 30, 2005 there were no assets or liabilities of discontinued operations recorded in the consolidated statement of financial position.

Assets of Johnson Controls World Services, Inc. as of the disposal date totaled \$178 million, which consisted of accounts receivable (\$127 million), goodwill (\$30 million), property, plant and equipment — net (\$10 million) and other miscellaneous assets (\$11 million). Liabilities of Johnson Controls World Services, Inc. as of the disposal date totaled \$57 million, which consisted of accounts payable (\$40 million) and other miscellaneous liabilities (\$17 million).

Assets of the engine electronics business as of the disposal date totaled \$427 million, which consisted of goodwill (\$154 million), accounts receivable (\$100 million), property, plant and equipment — net (\$69 million), other intangible assets — net (\$59 million) and other miscellaneous assets (\$45 million). Liabilities of the engine electronics business as of the disposal date totaled \$89 million, which consisted of accounts payable (\$82 million) and other miscellaneous liabilities (\$7 million).

4. INVENTORIES

Inventories consisted of the following (in millions):

	September 30,	
	2006	2005
Raw materials and supplies	\$ 655	\$ 497
Work-in-process	294	158
Finished goods	854	378
FIFO inventories	1,803	1,033
LIFO reserve	(72)	(50)
Inventories	\$ 1,731	\$ 983

Inventories valued by the LIFO method of accounting were approximately 25% and 31% of total inventories at September 30, 2006 and 2005, respectively.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following (in millions):

	September 30,	
	2006	2005
Buildings and improvements	\$ 1,794	\$ 1,784
Machinery and equipment	5,787	5,086
Construction in progress	589	479
Land	295	249
Total property, plant and equipment	8,465	7,598
Less accumulated depreciation	(4,497)	(4,017)
Property, plant and equipment — net	<u>\$ 3,968</u>	<u>\$ 3,581</u>

Interest costs capitalized during the years ended September 30, 2006, 2005, and 2004 were \$21 million, \$11 million and \$16 million, respectively.

In March 2005, the FASB issued FIN 47, which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation (ARO) if the fair value can be reasonably estimated even though uncertainty exists about the timing and/or method of settlement. Under FIN 47, companies must accrue for costs related to legal obligations associated with the retirement, disposal, removal or abandonment of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event and if the liability's fair value can be reasonably estimated. FIN 47 requires that the ARO estimate be recorded as a liability and as an increase to the related asset. The capitalized asset is depreciated over the remaining useful life of the asset.

We have identified certain legal and future environmental obligations at owned properties in the power solutions business as conditional AROs. In the fourth quarter of fiscal year 2006, the Company adopted FIN 47 and, using site-specific surveys and other historical information, recorded an increase in net property, plant and equipment of \$16 million, an ARO liability of \$28 million and a non-cash, after-tax charge of \$7 million (\$0.03 per share), which is reported in the fiscal year 2006 consolidated statement of income as a cumulative effect of a change in accounting principle, net of income taxes.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill in each of the Company's reporting segments for the years ended September 30, 2006 and 2005 were as follows (in millions):

	September 30, 2004	Business Acquisitions	Currency Translation and Other	September 30, 2005
Building efficiency				
North America Systems	\$ 46	\$ —	\$ (1)	\$ 45
North America Service	4	11	(4)	11
North America Unitary Products	—	—	—	—
Global Facilities Management	102	75	5	182
Europe	210	—	(3)	207
Rest of World	72	—	(1)	71
Interior experience				
North America	1,177	8	1	1,186
Europe	1,025	—	(12)	1,013
Asia	185	—	7	192
Power solutions	745	73	8	826
Total	<u>\$ 3,566</u>	<u>\$ 167</u>	<u>\$ —</u>	<u>\$ 3,733</u>
	September 30, 2005	Business Acquisitions	Currency Translation and Other	September 30, 2006
Building efficiency				
North America Systems	\$ 45	\$ 451	\$ —	\$ 496
North America Service	11	601	3	615
North America Unitary Products	—	473	—	473
Global Facilities Management	182	—	(16)	166
Europe	207	147	16	370
Rest of World	71	411	5	487
Interior experience				
North America	1,186	—	(10)	1,176
Europe	1,013	6	47	1,066
Asia	192	7	1	200
Power solutions	826	8	27	861
Total	<u>\$ 3,733</u>	<u>\$ 2,104</u>	<u>\$ 73</u>	<u>\$ 5,910</u>

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

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

	September 30, 2006			September 30, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets						
Patented technology	\$ 300	\$ (126)	\$ 174	\$ 231	\$ (103)	\$ 128
Unpatented technology	31	(9)	22	31	(7)	24
Customer relationships	304	(15)	289	96	(8)	88
Miscellaneous	33	(20)	13	10	(8)	2
Total amortized intangible assets	668	(170)	498	368	(126)	242
Unamortized intangible assets						
Trademarks	295	—	295	40	—	40
Pension asset	6	—	6	7	—	7
Total unamortized intangible assets	301	—	301	47	—	47
Total intangible assets	\$ 969	\$ (170)	\$ 799	\$ 415	\$ (126)	\$ 289

Amortization of other intangible assets for the years ended September 30, 2006, 2005 and 2004 was \$44 million, \$23 million and \$19 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates amortization of other intangible assets will average approximately \$37 million per year over the next five years.

7. 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 for future warranty-related costs based on actual historical return rates. Based on analysis of return rates and other factors, the adequacy of the Company's warranty provisions are adjusted as necessary. While the Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could exceed those estimates. The Company's product warranty liability is included in other current liabilities in the consolidated statement of financial position.

The changes in the carrying amount of the Company's total product warranty liability for the years ended September 30, 2006 and 2005 were as follows (in millions):

	Year Ended September 30,	
	2006	2005
Beginning balance	\$ 61	\$ 67
Accruals for warranties issued during the period	127	47
Accruals from business acquisition	83	3
Accruals related to pre-existing warranties (including changes in estimates)	(3)	(7)
Settlements made (in cash or in kind) during the period	(107)	(49)
Currency translation	1	—
Ending balance	\$ 162	\$ 61

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

8. LEASES

Certain administrative and production facilities and equipment are leased under long-term agreements. Most leases contain renewal options for varying periods, and certain leases include options to purchase the leased property during or at the end of the lease term. Leases generally require the Company to pay for insurance, taxes and maintenance of the property. Leased capital assets included in net property, plant and equipment, primarily buildings and improvements, were \$57 million and \$71 million at September 30, 2006 and 2005, respectively.

Other facilities and equipment are leased under arrangements that are accounted for as operating leases. Total rental expense for the years ended September 30, 2006, 2005 and 2004 was \$288 million, \$242 million and \$235 million, respectively.

Future minimum capital and operating lease payments and the related present value of capital lease payments at September 30, 2006 were as follows (in millions):

	Capital Leases	Operating Leases
2007	\$ 12	\$ 173
2008	11	143
2009	46	113
2010	5	80
2011	5	58
After 2011	25	110
Total minimum lease payments	104	\$ 677
Interest	(14)	
Present value of net minimum lease payments	\$ 90	

9. SHORT-TERM DEBT AND CREDIT AGREEMENTS

Short-term debt consisted of the following (in millions):

	September 30, 2006	2005
Commercial paper	\$ —	\$ 477
Bank borrowings	209	207
Short-term debt	\$ 209	\$ 684
Weighted average interest rate on short-term debt outstanding	5.85%	3.75%

The Company has a \$1.6 billion committed five-year credit facility to support its outstanding commercial paper. The facility expires in October 2010. Average outstanding commercial paper for the year ended September 30, 2006 was \$1.1 billion. There were no draws against the \$1.6 billion facility during the year ended September 30, 2006.

In addition, the Company had uncommitted lines of credit from banks totaling approximately \$560 million at September 30, 2006 of which \$350 million remained unused. The lines of credit are subject to the usual terms and conditions applied by banks.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

10. LONG-TERM DEBT

Long-term debt consisted of the following (in millions; due dates by fiscal year):

	September 30,	
	2006	2005
Unsecured notes		
4.875% due in 2013 (\$300 million par value)	\$ 299	\$ 299
5.0% due in 2007 (\$350 million par value)	352	354
6.3% due in 2008 (\$175 million par value)	170	175
7.7% due in 2015 (\$125 million par value)	125	125
7.125% due in 2017 (\$150 million par value)	149	149
6.95% due in 2046 (\$125 million par value)	125	125
5.25% due in 2011 (\$800 million par value)	800	—
5.5% due in 2016 (\$800 million par value)	799	—
6.0% due in 2036 (\$400 million par value)	395	—
6.7% due in 2008 (\$200 million par value)	204	—
5.8% due in 2013 (\$100 million par value)	100	—
Floating rate notes due in 2008 (\$500 million par value)	500	—
Unsecured loan		
Floating rate loan due in 2009	50	50
Capital lease obligations	90	105
Foreign-denominated debt		
euro	129	131
yen	237	91
Other	10	54
Gross long-term debt	4,534	1,658
Less: current portion	368	81
Net long-term debt	<u>\$ 4,166</u>	<u>\$ 1,577</u>

In January 2006, the Company issued \$2.5 billion in floating and fixed rate notes consisting of the following four series: \$500 million floating rate notes due in fiscal year 2008 (interest rate of 5.7% at September 30, 2006), \$800 million fixed rate notes due in fiscal year 2011, \$800 million fixed rate notes due in fiscal year 2016 and \$400 million fixed rate notes due in fiscal year 2036. The Company also entered into a 24 billion yen (approximately \$210 million) three year loan. The net proceeds of the note offering and the bank loan were used to repay the unsecured commercial paper obligations that were used to initially finance the acquisition of York.

At September 30, 2006, the Company's euro-denominated long-term debt was at fixed rates with a weighted-average interest rate of 8.0% and the Company's yen-denominated debt was at floating rates with a weighted average interest rate of 0.8%.

The installments of long-term debt maturing in subsequent years are: 2007 — \$368 million; 2008 — \$976 million; 2009 — \$331 million; 2010 — \$13 million; 2011 — \$817 million; 2012 and thereafter — \$2.0 billion. The Company's long-term debt includes various financial covenants, none of which are expected to restrict future operations.

Total interest paid on both short and long-term debt for the years ended September 30, 2006, 2005 and 2004 was \$234 million, \$133 million and \$137 million, respectively. The Company uses financial instruments to manage its interest rate exposure (see Note 11). These instruments affect the weighted average interest rate of the Company's debt and interest expense.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

11. FINANCIAL INSTRUMENTS

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities, compensation expense and interest rates. Under Company policy, the use of derivatives is restricted to those intended for hedging purposes; the use of any derivative instrument for speculative purposes is strictly prohibited. See Note 1 for additional information regarding the Company's objectives for holding certain derivative instruments, its strategies for achieving those objectives, and its risk management and accounting policies applicable to these instruments.

The Company has global operations and participates in the foreign exchange markets to minimize its risk of loss from fluctuations in currency exchange rates. The Company primarily uses foreign currency exchange contracts to hedge certain of its foreign currency exposure.

The Company selectively uses interest rate swaps to reduce market risk associated with changes in interest rates (cash flow or fair value hedges). In May 2002, the Company entered into a four-and-a-half-year interest rate swap to hedge a portion of the Company's 5% notes maturing in November 2006. Under the swap, the Company receives interest based on a fixed U.S. dollar rate of 5% and pays interest based on a floating three-month U.S. dollar LIBOR rate plus 14.75 basis points. Terms of the four-and-a-half-year swap were modified since inception of the swap resulting in a decrease of the notional amount to \$100 million from the original \$250 million. In October 2003, the Company entered into a four-year and three-month interest rate swap to hedge the Company's 6.3% notes maturing in February 2008. Under the swap, the Company receives interest based on a fixed U.S. dollar rate of 6.3% and pays interest based on a floating three-month U.S. dollar LIBOR rate plus 283.5 basis points.

In September 2005, the Company entered into three forward treasury lock agreements to reduce the market risk associated with changes in interest rates associated with the Company's anticipated fixed-rate note issuance to finance the acquisition of York (cash flow hedge). The three forward treasury lock agreements, which had a combined notional amount of \$1.3 billion, fixed a portion of the future interest cost for 5-year, 10-year and 30-year bonds. The fair value of each treasury lock agreement, or the difference between the treasury lock reference rate and the fixed rate at time of note issuance, was amortized to interest expense over the life of the respective note issuance. In January 2006, in connection with the Company's debt refinancing, the three forward lock treasury agreements were terminated.

The Company also selectively uses cross-currency interest rate swaps to hedge the foreign currency exposure associated with its net investment in certain foreign operations (net investment hedges). Under the swaps, the Company receives interest based on a variable U.S. dollar rate and pays interest based on variable euro rates on the outstanding notional principal amounts in dollars and euro, respectively. The Company did not renew the Yen cross-currency interest rate swap that matured on June 30, 2006, and incurred an immaterial foreign exchange loss on the swap. The Company continues to carry Yen debt as a hedge of its Yen exposure related to its net investment in Japan.

In addition, 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. In March 2004, the Company entered into an equity swap agreement. In connection with the swap agreement, as amended, a third party may purchase shares of the Company's stock in the market or in privately negotiated transactions up to an amount equal to \$200 million in aggregate market value at any given time. Although the swap agreement has a stated expiration date, the Company's intention is to continually renew the swap agreement with Citibank, N.A.'s consent. The net effect of the change in the fair value of the swap agreement and the change in equity compensation liabilities was not material to the Company's earnings for the years ended September 30, 2006 or 2005.

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

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

commodity contracts coincide with the expected purchase of the commodities. 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's derivative instruments are recorded at fair value in the consolidated statement of financial position as follows (in millions at U.S. dollar equivalent):

	September 30,			
	2006		2005	
	Notional Amount	Fair Value Asset (Liability)	Notional Amount	Fair Value Asset (Liability)
Other current assets				
Treasury lock agreements	\$ —	\$ —	\$1,275	\$31
Foreign currency exchange contracts	2,801	3	2,988	20
Interest rate swaps	150	2	—	—
Cross-currency interest rate swaps	—	—	737	58
Equity swap	—	—	107	3
Commodity contracts	278	34	62	2
Other noncurrent assets				
Commodity contracts	20	5	—	—
Other current liabilities				
Cross-currency interest rate swaps	1,162	(63)	—	—
Equity swap	123	(1)	—	—
Other noncurrent liabilities				
Interest rate swaps	175	(5)	325	(2)

It is important to note that the Company's derivative instruments are hedges protecting against underlying changes in foreign currency, interest rates, compensation liabilities and commodity price changes. Accordingly, the implied gains/losses associated with the fair values of foreign currency exchange contracts and cross-currency interest rate swaps would be offset by gains/losses on underlying payables, receivables and net investments in foreign subsidiaries. Similarly, implied gains/losses associated with interest rate swaps offset changes in interest rates and the fair value of long-term debt.

The fair values of interest rate and cross-currency interest rate swaps were determined using dealer quotes and market interest rates. The fair values of foreign currency exchange contracts were determined using market exchange rates.

12. STOCK-BASED COMPENSATION

Effective October 1, 2002, the Company voluntarily adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of SFAS 123."

Effective October 1, 2005, the Company adopted SFAS No. 123(R) using the modified prospective method. The modified prospective method requires compensation cost to be recognized beginning on the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. As such, prior periods will not reflect restated amounts. The cumulative impact of adopting SFAS 123(R) was not significant to the Company's operating results since the Company had previously adopted SFAS No. 123. Pro forma net income and basic and diluted earnings per share have not been disclosed as the impact of applying the fair value based method to all outstanding and unvested awards is not material to the Company's consolidated results of operations.

The Company has two share-based compensation plans, which are described below. The compensation cost charged against income for those plans was approximately \$67 million, \$38 million and \$35 million for the years ended September 30, 2006, 2005 and 2004, respectively. The total income tax benefit recognized in the income statement for

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

share-based compensation arrangements was approximately \$27 million, \$15 million and \$14 million for the years ended September 30, 2006, 2005 and 2004, respectively.

Prior to the adoption of SFAS No. 123(R), the Company applied a nominal vesting approach for employee stock-based compensation awards with retirement eligible provisions. Under the nominal vesting approach, the Company recognized compensation cost over the vesting period and, if the employee retired before the end of the vesting period, the Company recognized any remaining unrecognized compensation cost at the date of retirement. For stock-based payments issued after the adoption of SFAS No. 123(R), the Company applies a non-substantive vesting period approach whereby expense is accelerated for those employees that receive awards and are eligible to retire prior to the award vesting. Had the Company applied the non-substantive vesting period approach prior to the adoption of SFAS No. 123(R), an approximate \$11 million and \$5 million reduction of pre-tax compensation cost would have been recognized for the years ended September 30, 2006 and 2005, respectively. For the year ended September 30, 2004, the impact of applying the non-substantive vesting period approach is not significant.

Stock Option Plan

Stock Options

The Company's 2000 Stock Option Plan, as amended (Plan), which is shareholder-approved, permits the grant of stock options to its employees for up to approximately 13 million shares of new common stock (approximately 5 million shares of common stock remained available to be granted at September 30, 2006). Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards vest between two and three years after the grant date and expire 10 years from the grant date.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The expected term of options represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods during the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Year Ended September 30,		
	2006	2005	2004
Expected life of option (years)	4.75	5.00	5.00
Risk-free interest rate	4.46%	3.48%	3.00%
Expected volatility of the Company's stock	22.00%	20.00%	23.00%
Expected dividend yield on the Company's stock	1.70%	1.76%	1.75%
Expected forfeiture rate	12.75%	8.00%	7.00%

A summary of stock option activity at September 30, 2006, and changes for the year then ended, is presented below:

	Weighted Average Option Price	Shares Subject to Option	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
Outstanding, September 30, 2005	\$ 45.62	10,524,494		
Granted	67.76	2,880,641		
Exercised	35.97	(2,809,405)		
Forfeited or expired	58.93	(254,412)		
Outstanding, September 30, 2006	<u>\$ 54.08</u>	<u>10,341,318</u>	<u>7.2</u>	<u>\$ 187</u>

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

The weighted-average grant-date fair value of options granted during the years ended September 30, 2006, 2005 and 2004 was \$15.35, \$13.92 and \$10.99, respectively.

The total intrinsic value of options exercised during the years ended September 30, 2006, 2005 and 2004 was approximately \$106 million, \$57 million and \$62 million, respectively.

In conjunction with the exercise of stock options granted, the Company received cash payments for the years ended September 30, 2006, 2005, and 2004 of approximately \$97 million, \$66 million and \$59 million, respectively.

In November 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes computational guidance to establish the beginning balance of the additional paid-in capital pool (APIC Pool) related to the tax effects of employee stock-based compensation, and a simplified method to determine the subsequent impact on the APIC Pool for employee stock-based compensation awards that are vested and outstanding upon adoption of SFAS 123(R). The tax benefit from the exercise of stock options, which is recorded in additional paid-in-capital, was \$33 million, \$28 million and \$19 million, respectively, for the years ended September 30, 2006, 2005 and 2004. The Company does not settle equity instruments granted under share-based payment arrangements for cash.

At September 30, 2006, the Company had approximately \$27 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 0.9 years.

Stock Appreciation Rights (SARs)

The Plan also permits SARs to be separately granted to certain employees. SARs vest under the same terms and conditions as option awards; however, they are settled in cash for the difference between the market price on the date of exercise and the exercise price. As a result, SARs are recorded in the Company's consolidated statements of financial position as a liability until the date of exercise.

The fair value of each SAR award is estimated using a similar method described for option awards. In accordance with SFAS No. 123(R), the fair value of each SAR award is recalculated at the end of each reporting period and the liability and expense adjusted based on the new fair value. Prior to the effective date of SFAS No. 123(R), the SAR liability and expense was determined based on the intrinsic value of each award at the end of each reporting period. The difference between the fair value and intrinsic value of SAR awards on the date of adoption of SFAS No. 123(R) was not material to the Company's consolidated results of operations.

The assumptions used to determine the fair value of the SAR awards at September 30, 2006 were as follows:

Expected life of SAR (years)	0.5 - 3.0
Risk-free interest rate	4.62 - 5.02%
Expected volatility of the Company's stock	22.00%
Expected dividend yield on the Company's stock	1.70%
Expected forfeiture rate	0-20%

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

A summary of SAR activity at September 30, 2006, and changes for the year then ended, is presented below:

	Weighted Average SAR Price	Shares Subject to SAR	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
Outstanding, September 30, 2005	\$ 39.05	999,165		
Granted	67.69	287,643		
Exercised	37.22	(255,047)		
Forfeited or expired	61.22	(34,255)		
Outstanding, September 30, 2006	<u>\$ 54.16</u>	<u>997,506</u>	<u>7.2</u>	<u>\$ 18</u>
Exerciseable, September 30, 2006	<u>\$ 39.93</u>	<u>378,499</u>	<u>5.2</u>	<u>\$ 12</u>

In conjunction with the exercise of SARs granted, the Company made payments of \$10 million and \$6 million during the years ended September 30, 2006 and 2005, respectively.

Restricted (Nonvested) Stock

In fiscal year 2002, the Company adopted a restricted stock plan that provides for the award of restricted shares of common stock or restricted share units to certain key employees. Awards under the restricted stock plan vest 50% after two years from the grant date and 50% after four years from the grant date.

A summary of the status of the Company's nonvested restricted shares at September 30, 2006, and changes for the year then ended, is presented below:

	Weighted Average Price	Shares Subject to Restriction
Nonvested, September 30, 2005	\$ 51.20	410,000
Granted	74.28	297,500
Vested	48.65	(269,000)
Forfeited or expired	—	—
Nonvested, September 30, 2006	<u>\$ 68.42</u>	<u>438,500</u>

At September 30, 2006, the Company had approximately \$17 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the restricted stock plan. That cost is expected to be recognized over a weighted-average period of 1.0 years.

13. SHAREHOLDERS' EQUITY

The Company originally issued 341.7969 shares of its 7.75% Series D Convertible Preferred Stock to its ESOP. The preferred stock was issued in fractional amounts representing one ten-thousandth of a share each or 3.4 million preferred stock units in total. Each preferred stock unit has a liquidation value of \$51.20. The ESOP financed its purchase of the preferred stock units by issuing debt. An amount representing unearned employee compensation, equivalent in value to the unpaid balance of the ESOP debt, was recorded as a deduction from shareholders' equity.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

Effective December 31, 2003, the Company's Board of Directors authorized the redemption of all the outstanding Series D Convertible Preferred Stock, held in the ESOP, and the ESOP trustee converted the preferred stock into common shares in accordance with the terms of the preferred stock certificate. The conversion resulted in the issuance of approximately 7.5 million common shares (on a post-split basis) and was accounted for through a transfer from preferred stock to common stock and capital in excess of par value. The conversion of \$96 million of preferred shares held by the ESOP has been reflected within Shareholders' Equity in the consolidated statement of financial position. The conversion of these shares resulted in their inclusion in the basic weighted average common shares outstanding amount used to compute basic earnings per share (EPS). The conversion of preferred shares has always been assumed in the determination of diluted EPS. The Company's ESOP was financed with debt issued by the ESOP, and the final ESOP debt payment was paid by the Company in December 2003.

On November 19, 2003, the Company's Board of Directors declared a two-for-one split of the Company's common stock payable January 2, 2004 to shareholders of record on December 12, 2003. The stock split resulted in the issuance of approximately 90.5 million additional shares of common stock. In connection with the stock split, the par value of the common stock was changed from \$.16 2/3 per share to \$.04 1/6 per share.

14. EARNINGS PER SHARE

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by dividing net income by the weighted average number of common shares and common equivalent shares outstanding during the year that are calculated using the treasury-stock method for stock options. The treasury stock method assumes that the Company uses the proceeds from the exercise of awards to repurchase common stock at the average market price during the period. The assumed proceeds under the treasury stock method include the purchase price that the grantee will pay in the future, compensation cost for future service that the Company has not yet recognized and any windfall tax benefits that would be credited to additional paid-in capital when the award generates a tax deduction. If there would be a shortfall resulting in a charge to additional paid-in capital, such an amount would be a reduction of the assumed proceeds.

The following table reconciles the numerators and denominators used to calculate basic and diluted earnings per share for the years ended September 30, 2006, 2005 and 2004 (in millions):

	Year Ended September 30,		
	2006	2005	2004
Income Available to Common Shareholders			
Net income and diluted income available to common shareholders	\$ 1,028	\$ 909	\$ 818
Preferred stock dividends, net of tax benefit	—	—	(2)
Basic income available to common shareholders	<u>\$ 1,028</u>	<u>\$ 909</u>	<u>\$ 816</u>
Weighted Average Shares Outstanding			
Basic weighted average shares outstanding	194.5	191.8	187.7
Effect of dilutive securities:			
Stock options	2.1	2.5	3.0
Convertible preferred stock	—	—	1.9
Diluted weighted average shares outstanding	<u>196.6</u>	<u>194.3</u>	<u>192.6</u>
Antidilutive Securities			
Options to purchase common shares	0.1	0.6	0.3

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

15. RETIREMENT PLANS**Pension Benefits**

The Company has non-contributory defined benefit pension plans covering most U.S. and certain non-U.S. employees. The benefits provided are primarily based on years of service and average compensation or a monthly retirement benefit amount. Effective January 1, 2006, certain of the Company's U.S. pension plans were amended to prohibit new participants from entering the plans. Active participants will continue to accrue benefits under the amended plans. Funding for U.S. pension plans equals or exceeds the minimum requirements of the Employee Retirement Income Security Act of 1974. Funding for non-US plans observes the local legal and regulatory limits. Also, the Company makes contributions to union-trusted pension funds for construction and service personnel.

The Company's investment policies employ an approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The investment portfolio primarily contains a diversified blend of equity and fixed-income investments. Equity investments are diversified across domestic and non-domestic stocks, as well as growth, value, and small to large capitalizations. Fixed income investments include corporate and government issues, with short-, mid- and long-term maturities, with a focus on investment grade when purchased. Investment and market risks are measured and monitored on an ongoing basis through regular investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

The Company's actual asset allocations are in line with target allocations. The Company rebalances asset allocations monthly, or as appropriate, in order to stay within a range of allocation for each asset category.

The Company's pension plan asset allocations by asset category are shown below.

	2006	2005
Equity securities:		
U.S. plans	63%	63%
Non-U.S. plans	51%	47%
Debt securities:		
U.S. plans	31%	36%
Non-U.S. plans	43%	47%
Real estate:		
U.S. plans	5%	1%
Non-U.S. plans	5%	5%
Cash/liquidity:		
U.S. plans	1%	—
Non-U.S. plans	1%	1%

The expected return on plan assets is based on the Company's expectation of the long-term average rate of return of the capital markets in which the plans invest. The average market returns are adjusted, where appropriate, for active asset management returns. The expected return reflects the investment policy target asset mix and considers the historical returns earned for each asset category.

For pension plans with accumulated benefit obligations (ABO) that exceed plan assets, the projected benefit obligation (PBO), ABO and fair value of plan assets of those plans were \$1,360 million, \$1,263 million and \$802 million, respectively, as of September 30, 2006 and \$769 million, \$695 million and \$296 million, respectively, as of September 30, 2005.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

The Company expects to contribute approximately \$103 million in cash to its defined benefit pension plans in fiscal year 2007. Projected benefit payments from the plans as of September 30, 2006 are estimated as follows (in millions):

2007	\$120
2008	127
2009	135
2010	143
2011	151
2012-2016	946

Savings and Investment Plans

The Company sponsors various defined contribution savings plans primarily in the U.S. that allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan specified guidelines. Under specified conditions, the Company will contribute to certain savings plans based on the employees' eligible pay and/or will match a percentage of the employee contributions up to certain limits. Excluding the ESOP, matching contributions charged to expense amounted to \$60 million, \$42 million and \$23 million for the fiscal years ended 2006, 2005 and 2004, respectively.

The Company established an ESOP as part of its savings and investment plans. The Company's annual contributions to the ESOP, when combined with the preferred stock dividends, were of an amount which allowed the ESOP to meet its debt service requirements. This contribution amount was \$17 million in 2004. The Company's final ESOP debt payment was made in December 2003 (see Note 13). Compensation expense recorded by the Company related to the ESOP was \$26 million in 2004. No compensation expense was recorded by the Company related to the ESOP in 2006 or 2005.

Postretirement Health and Other Benefits

The Company provides certain health care and life insurance benefits for eligible retirees and their dependents primarily in the U.S. Most non-U.S. employees are covered by government sponsored programs, and the cost to the Company is not significant. The U.S. benefits are paid as incurred. No change in the Company's practice of funding these benefits on a pay-as-you-go basis is anticipated.

Eligibility for coverage is based on meeting certain years of service and retirement age qualifications. These benefits may be subject to deductibles, co-payment provisions and other limitations, and the Company has reserved the right to modify these benefits. Effective January 31, 1994, the Company modified certain salaried plans to place a limit on the Company's cost of future annual retiree medical benefits at no more than 150% of the 1993 cost.

The September 30, 2006 accumulated postretirement benefit obligation (APBO) for both pre-65 and post-65 years of age employees was determined using assumed medical care cost trend rates of 9.5% decreasing one half percent each year to an ultimate rate of 5% and prescription drug trend rates of 11.5% decreasing one half percent each year to an ultimate rate of 6%. The September 30, 2005 APBO for both pre-65 and post-65 years of age employees was determined using assumed health care cost trend rates for both medical and prescription drug costs of 10% decreasing 1% each year to an ultimate rate of 5%. The health care cost trend assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would have increased the accumulated benefit obligation by \$19 million at September 30, 2006 and the sum of the service and interest costs in fiscal year 2006 by \$2 million. A one percentage point decrease in the assumed health care cost trend rate would have decreased the accumulated benefit obligation by \$11 million at September 30, 2006 and the sum of the service and interest costs by \$1 million.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

The Company expects to contribute approximately \$24 million in cash to its postretirement health and other benefit plans in fiscal year 2007. Projected benefit payments from the plans as of September 30, 2006 are estimated as follows (in millions):

2007	\$ 24
2008	25
2009	26
2010	28
2011	28
2012-2016	150

In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) for employers sponsoring postretirement health care plans that provide prescription drug benefits. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans providing a benefit that is at least actuarially equivalent to Medicare Part D.1. Under the Act, the Medicare subsidy amount is received directly by the plan sponsor and not the related plan. Further, the plan sponsor is not required to use the subsidy amount to fund postretirement benefits and may use the subsidy for any valid business purpose. Projected subsidy receipts are estimated to be approximately \$4 million per year over the next ten years.

The table that follows contains the accumulated benefit obligation and reconciliations of the changes in the PBO, the changes in plan assets and the funded status (in millions):

Table of Contents

Johnson Controls, Inc. Notes to Consolidated Financial Statements

September 30,	Pension				Postretirement Health and Other	
	U.S. Plans		Non-U.S. Plans		2006	2005
	2006	2005	2006	2005		
Accumulated Benefit Obligation	\$ 1,810	\$ 1,494	\$ 1,232	\$ 928	\$ —	\$ —
Change in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	1,749	1,428	1,047	827	185	170
Service cost	87	64	38	26	7	5
Interest cost	112	89	50	40	16	10
Plan participant contributions	—	—	5	5	—	—
Acquisitions (1)	423	—	194	81	177	—
Actuarial loss (gain)	(287)	216	(19)	119	(33)	18
Amendments made during the year	13	2	—	—	—	1
Benefits paid	(79)	(52)	(38)	(32)	(25)	(21)
Special termination benefits	2	—	—	—	—	—
Curtailment loss (gain)	(2)	2	—	(7)	(2)	—
Settlement	—	—	—	—	1	—
Currency translation adjustment	—	—	63	(12)	1	2
Projected benefit obligation at end of year	\$ 2,018	\$ 1,749	\$ 1,340	\$ 1,047	\$ 327	\$ 185
Change in Plan Assets						
Fair value of plan assets at beginning of year	\$ 1,453	\$ 1,180	\$ 630	\$ 475	\$ —	\$ —
Actual return on plan assets	103	138	60	74	—	—
Acquisitions	328	—	112	64	—	—
Employer and employee contributions	48	187	108	56	25	21
Benefits paid	(79)	(52)	(38)	(32)	(25)	(21)
Currency translation adjustment	—	—	42	(7)	—	—
Fair value of plan assets at end of year	\$ 1,853	\$ 1,453	\$ 914	\$ 630	\$ —	\$ —
Funded status	\$ (165)	\$ (296)	\$ (426)	\$ (417)	\$ (327)	\$ (185)
Unrecognized net transition obligation	(2)	(4)	—	—	—	—
Unrecognized net actuarial loss (gain)	282	566	155	208	(14)	21
Unrecognized prior service cost	20	9	(2)	(3)	(6)	(8)
Employer contributions paid between the measurement date and September 30	<u>1</u>	<u>1</u>	<u>3</u>	<u>1</u>	<u>—</u>	<u>—</u>
Net accrued benefit cost recognized at end of year	\$ 136	\$ 276	\$ (270)	\$ (211)	\$ (347)	\$ (172)
Amounts recognized in the statement of financial position consist of:						
Prepaid benefit cost	\$ 240	\$ 323	\$ 20	\$ 8	\$ —	\$ —
Accrued benefit liability	(129)	(68)	(410)	(360)	(347)	(172)
Intangible asset	6	2	1	5	—	—
Accumulated other comprehensive income	<u>19</u>	<u>19</u>	<u>119</u>	<u>136</u>	<u>—</u>	<u>—</u>
Net amount recognized	\$ 136	\$ 276	\$ (270)	\$ (211)	\$ (347)	\$ (172)
Weighted Average Assumptions (2),						
Discount rate	6.50%	5.50%	4.60%	4.00%	6.40%	5.50%
Rate of compensation increase	3.60%	3.80%	3.30%	2.75%	NA	NA



Johnson Controls, Inc.
Notes to Consolidated Financial Statements

- (1) The acquisitions for the U.S. and non-U.S. pension plans for the year ended September 30, 2006 include \$617 million projected benefit obligations, \$440 million of plan assets and \$177 million of accumulated postretirement benefit obligations primarily related to the York acquisition.
- (2) Plan assets and obligations are determined based on a July 31 measurement date at September 30, 2006 and 2005 for U.S. plans and a September 30 measurement date at September 30, 2006 and 2005 for non-U.S. plans, utilizing assumptions as of those dates.

The table that follows contains the components of net periodic benefit cost (in millions).

Year ended September 30	Pension						Postretirement Health and Other		
	U.S. Plans			Non-U.S. Plans					
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Components of Net Periodic Benefit Cost									
Service cost	\$ 87	\$ 64	\$ 58	\$ 38	\$ 26	\$ 23	\$ 7	\$ 5	\$ 5
Interest cost	112	89	82	50	40	35	16	10	11
Expected return on plan assets	(144)	(104)	(104)	(41)	(30)	(26)	—	—	—
Amortization of transitional obligation	(2)	(2)	(3)	—	—	—	—	—	—
Amortization of net actuarial loss	36	20	10	9	7	6	2	1	1
Amortization of prior service cost	1	2	1	—	(1)	—	(2)	(2)	(2)
Special termination benefits	2	—	—	—	—	—	—	—	—
Curtailment loss (gain)	—	2	1	—	(7)	—	(2)	—	1
Recognition of unrealized loss associated with transfer of Japanese pension obligation	—	—	—	—	—	14	—	—	—
Net periodic benefit cost	\$ 92	\$ 71	\$ 45	\$ 56	\$ 35	\$ 52	\$ 21	\$ 14	\$ 16

Expense Assumptions

Discount rate	5.50%	6.25%	6.50%	4.00%	4.50%	4.00%	5.50%	6.25%	6.50%
Expected return on plan assets	8.75%	8.75%	8.75%	5.90%	5.75%	5.25%	NA	NA	NA
Rate of compensation increase	3.80%	4.00%	4.00%	2.75%	3.00%	3.00%	NA	NA	NA

Japanese Pension Settlement Gain

During fiscal year 2004, the Company recorded a pension gain related to certain of the Company's Japanese pension plans established under the Japanese Welfare Pension Insurance Law. In accordance with amendments to this law, the Company completed the transfer of certain pension obligations and related plan assets to the Japanese government which resulted in a non-cash settlement gain of \$84 million, net of \$1 million associated with the recognition of unrecognized actuarial losses, recorded within SG&A expenses in the consolidated statement of income. The excess of benefit obligations over plan assets (funded status) of the Company's non-U.S. pension plans decreased \$85 million as a result of the transfer.

16. 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 year 2006 and recorded a \$197 million restructuring charge. The 2006 Plan, which primarily includes workforce reductions and plant consolidations in the automotive experience and building efficiency businesses, is expected to be substantially completed by the end of the third quarter of fiscal year 2007. The automotive experience business related restructuring is 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 relate to Europe where the Company has launched a systems

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

redesign initiative. During the fourth quarter of fiscal year 2006, automotive experience — North America increased its 2006 Plan restructuring charge by \$8 million for additional employee severance and termination benefits. The Company expects to incur other related and ancillary costs associated with some of these restructuring activities in future periods. These costs are not expected to be material and will be expensed as incurred.

The 2006 Plan includes workforce reductions of approximately 4,700 employees (2,200 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 will be 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, 2006, approximately 350 employees have been separated from the Company. 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). The restructuring charge for the impairment of the long-lived assets associated with the plant closures was determined using an undiscounted cash flow analysis.

The following table summarizes the Company's 2006 Plan reserve, included within other current liabilities in the consolidated statement of financial position (in millions):

	Employee Severance and Termination Benefits	Other	Currency Translation	Total
Original reserve	\$ 134	\$ 63	\$ —	\$ 197
Additional provision	8	—	—	8
Utilized — Cash	(17)	—	—	(17)
Utilized — Noncash	—	(51)	1	(50)
Balance at September 30, 2006	<u>\$ 125</u>	<u>\$ 12</u>	<u>\$ 1</u>	<u>\$ 138</u>

Included within the "other" category are the write down of long-lived assets, exit costs for terminating supply contracts associated with changes in the Company's manufacturing footprint and strategies, lease termination costs and other direct costs. The write down of long-lived assets includes \$47 million related to automotive experience and \$4 million related to building efficiency.

In the second quarter of fiscal year 2005, the Company committed to a restructuring plan (2005 Plan) involving cost reduction actions and recorded a \$210 million restructuring charge. This restructuring charge included workforce reductions of approximately 3,900 employees. During the fourth quarter of fiscal year 2006, automotive experience — Europe reversed \$6 million of restructuring reserves from the 2005 Plan that were not expected to be utilized. 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, 2006, approximately 2,900 employees have separated from the Company pursuant to the 2005 Plan. In addition, the 2005 Plan included 12 plant closures. The charge for the impairment of the long-lived assets associated with the plant closures was determined using an undiscounted cash flow analysis. The closures/restructuring activities are primarily concentrated in Europe and North America.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

The following table summarizes the 2005 Plan reserve, included within other current liabilities in the consolidated statement of financial position (in millions):

	Employee Severance and Termination Benefits	Other	Currency Translation	Total
Balance at September 30, 2005	\$ 88	\$ 14	\$ (9)	\$ 93
Utilized — Cash	(55)	(5)	—	(60)
Utilized — Noncash	—	(1)	5	4
Reserve release — Noncash	—	(6)	—	(6)
Balance at September 30, 2006	<u>\$ 33</u>	<u>\$ 2</u>	<u>\$ (4)</u>	<u>\$ 31</u>

Included within the “other” category were exit costs related to terminating supply contracts associated with changes in the Company’s manufacturing footprint and strategies, lease termination costs and other direct costs. The majority of the restructuring activities under the 2005 Plan are expected to be completed by December 2006.

In the second quarter of fiscal year 2004, the Company committed to a restructuring plan (2004 Plan), of which substantially all of the reserves have been utilized. During the fourth quarter of fiscal year 2006, automotive experience — Europe released \$2 million in remaining reserves not expected to be utilized.

Company management closely monitors its overall cost structure and continually analyzes each of its businesses for opportunities to consolidate current operations, improve operating efficiencies and locate facilities in low cost countries in close proximity to customers. This ongoing analysis includes a review of its manufacturing, engineering, and purchasing operations, as well as the overall global footprint for all its businesses. Because of the importance of new vehicle sales by major automotive manufacturers to operations, the Company is affected by the general business conditions in this industry. Future adverse developments in the automotive industry could impact the Company’s liquidity position and/or require additional restructuring of its operations.

17. INCOME TAXES

An analysis of effective income tax rates for continuing operations is shown below:

	Year Ended September 30,		
	2006	2005	2004
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.7	1.5	1.4
Foreign income tax expense at different rates and foreign losses without tax benefits	(22.5)	(11.6)	(4.5)
U.S. tax on foreign income	(2.6)	(17.6)	(4.8)
Reserve and valuation allowance adjustments	(8.3)	15.1	(2.8)
Other	1.2	(2.0)	(0.8)
Effective income tax rate	<u>5.5%</u>	<u>20.4%</u>	<u>23.5%</u>

The Company’s base effective income tax rate for continuing operations for fiscal year 2006 declined to 21.0% from 25.7% in fiscal year 2005 and 26.0% in fiscal year 2004, primarily due to continuing global tax planning initiatives, increased income in certain foreign jurisdictions with a rate of tax lower than the U.S. statutory tax rate and decreased income in higher tax jurisdictions. The Company’s effective tax rates were further reduced as a result of the following discrete items:

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

	Year Ended September 30,		
	2006	2005	2004
Federal, state and foreign income tax expense at base effective income tax rate	\$ 239	\$ 258	\$ 278
Restructuring charge	(19)	—	—
Valuation allowance adjustments	(163)	28	—
Uncertain tax positions	(10)	—	(27)
Foreign dividend repatriation	31	—	—
Disposition of a joint venture	(4)	—	—
Change in tax status of foreign subsidiaries	(11)	(81)	—
Provision for income taxes	<u>\$ 63</u>	<u>\$ 205</u>	<u>\$ 251</u>

Restructuring Charge

In the third quarter of fiscal year 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

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 year 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 year 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 third quarter of fiscal year 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.

Uncertain Tax Positions

The Company's effective tax rate was reduced in the third quarter of fiscal year 2006 by a \$10 million tax benefit related to a favorable tax audit resolution in a foreign jurisdiction. In fiscal year 2004, the Company's effective tax rate was reduced by a \$27 million favorable tax settlement.

The Company is subject to income taxes in the U.S. and numerous foreign 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 federal income tax returns and certain foreign income tax returns for fiscal years 1997 through 2003 are currently under various stages of audit by the Internal Revenue Service and respective foreign 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 has 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.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

Foreign Dividend Repatriation

In October 2004, the 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 foreign operations. The deduction is subject to a number of limitations. During the quarter ended March 31, 2006, the Company completed its evaluation of its repatriation plans and \$674 million of foreign earnings were repatriated 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 second quarter of fiscal year 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.

Other Discrete Period Items

The Company's effective tax rate was reduced in the first quarter of fiscal year 2006 by a \$4 million tax benefit related to a \$9 million gain resulting from the disposition of the Company's interest in a German joint venture.

The Company's effective tax rate was also reduced in the first quarter of fiscal year 2006 by \$11 million due to a change in tax status for subsidiaries in Hungary and the Netherlands. In fiscal year 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, partially offset by an increase in the tax valuation allowance of \$28 million related to restructuring charges for which no tax benefit was received in certain countries (primarily Germany and the U.K.) given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in the country at that time. The changes in tax status in each respective period resulted from a voluntary tax election that produced deemed liquidations for U.S. federal income tax purposes. The Company received these tax benefits in the U.S. for the losses from the decrease in value from the original tax bases of these investments. These elections changed the tax status of the respective subsidiaries from controlled foreign corporations (i.e., taxable entities) to branches (i.e., flow through entities similar to a partnership) for U.S. federal income tax purposes and are thereby reported as discrete period tax benefits 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, World Services and its engine electronic business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences.

Components of the provision for income taxes on continuing operations were as follows (in millions):

	Year Ended September 30,		
	2006	2005	2004
Current			
Federal	\$ 259	\$ 171	\$ 99
State	67	19	9
Foreign	141	40	43
	<u>467</u>	<u>230</u>	<u>151</u>
Deferred			
Federal	(5)	34	73
State	(27)	2	9
Foreign	(372)	(61)	18
	<u>(404)</u>	<u>(25)</u>	<u>100</u>
Provision for income taxes	<u>\$ 63</u>	<u>\$ 205</u>	<u>\$ 251</u>

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

Consolidated domestic income from continuing operations before income taxes and minority interests for the years ended September 30, 2006, 2005 and 2004 was \$754 million, \$826 million and \$759 million, respectively. Consolidated foreign income from continuing operations before income taxes and minority interests for the years ended September 30, 2006, 2005 and 2004 was \$384 million, \$177 million and \$311 million, respectively.

Income taxes paid for the years ended September 30, 2006, 2005 and 2004 were \$156 million, \$177 million, and \$107 million, respectively.

The Company has not provided additional U.S. income taxes on approximately \$960 million of undistributed earnings of consolidated foreign subsidiaries included in stockholders' equity. Such earnings could become taxable upon the sale or liquidation of these foreign 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. It is not practicable to estimate the amount of unrecognized withholding taxes and deferred tax liability on such earnings.

Deferred taxes were classified in the consolidated statements of financial position as follows (in millions):

	September 30,	
	2006	2005
Other current assets	\$ 459	\$ 238
Other noncurrent assets	964	259
Other current liabilities	(48)	(46)
Other noncurrent liabilities	(502)	(400)
Net deferred tax asset	<u>\$ 873</u>	<u>\$ 51</u>

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities included (in millions):

	September 30,	
	2006	2005
Deferred tax assets		
Accrued expenses and reserves	\$ 593	\$ 314
Employee and retiree benefits	149	35
Long-term contracts	10	17
Net operating loss and other carryforwards	819	759
Other	235	39
	<u>1,806</u>	<u>1,164</u>
Valuation allowances	(355)	(573)
	<u>1,451</u>	<u>591</u>
Deferred tax liabilities		
Property, plant and equipment	81	134
Joint ventures	8	11
Intangible assets	300	111
Foreign currency translation adjustments	189	284
	<u>578</u>	<u>540</u>
Net deferred tax asset	<u>\$ 873</u>	<u>\$ 51</u>

At September 30, 2006, the Company had available foreign net operating loss carryforwards of approximately \$2.0 billion, of which \$589 million will expire at various dates between 2007 and 2021, and the remainder have an indefinite carryforward period. The valuation allowance, generally, represents loss carryforwards for which utilization is uncertain because it is unlikely that the losses will be utilized given the lack of sustained profitability and/or limited carryforward periods in certain countries.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

18. SEGMENT INFORMATION

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 the standard. The Company’s ten reportable segments are presented in the context of its three primary businesses — building efficiency, automotive experience and power solutions.

Building efficiency

North America Systems designs, produces, markets and installs heating, ventilating, and air conditioning equipment (HVAC) and control systems that monitor, automate and integrate critical building operating equipment and conditions including HVAC, fire-safety and security in commercial buildings and in various industrial applications in North America.

- North America systems designs, produces, markets and installs mechanical equipment that provides heating and cooling in North American non-residential buildings and industrial applications as well as control systems that integrate the operation of this equipment with other critical building systems.
- North America service provides technical services including inspection, scheduled maintenance, repair and replacement of mechanical and control systems in North America, as well as the retrofit and service components of performance contracts and other solutions.
- North America unitary products designs and produces heating and air conditioning solutions for residential and light commercial applications and markets products to the replacement and new construction markets.
- Workplace solutions provides on-site staff for complete real estate services, facility operation and management to improve the comfort, productivity, energy efficiency and cost effectiveness of building systems around the globe.
- Europe provides HVAC and refrigeration systems and technical services to the European marketplace.
- Rest of world provides HVAC and refrigeration systems and technical services to markets in Asia, the Middle East and Latin America.

Automotive experience

Automotive experience designs and manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport/crossover vehicles in North America, Europe and Asia. Automotive experience systems and products include complete seating systems and components; cockpit systems, including instrument clusters, information displays and body controllers; overhead systems, including headliners and electronic convenience features; floor consoles; and door systems.

Power solutions

Power solutions services both automotive original equipment manufacturers and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise.

The accounting policies applicable to the reportable segments are the same as those described in Note 1, Summary of Significant Accounting Policies. Management evaluates the performance of the segments based primarily on operating income, excluding significant restructuring costs and other significant non-recurring gains and losses. Operating revenues and expenses are allocated to business segments in determining segment operating income. Items excluded from the determination of segment operating income include interest income and expense, equity in earnings of partially-owned affiliates, gains and losses from sales of businesses and long-term assets, foreign currency gains and

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

losses, and other miscellaneous income and expense. Unallocated assets are corporate cash and cash equivalents, investments in partially-owned affiliates and other non-operating assets. Financial information relating to the Company's reportable segments is as follows (in millions):

	Year Ended September 30,		
	2006	2005	2004
Net Sales			
Building efficiency			
North America Systems	\$ 1,609	\$ 1,158	\$ 1,132
North America Service	1,943	1,186	987
North America Unitary Products	853	—	—
Workplace Solutions	2,046	1,863	1,753
Europe	1,900	899	866
Rest of World	1,894	612	586
	<u>10,245</u>	<u>5,718</u>	<u>5,324</u>
Automotive experience			
North America	8,041	8,499	8,237
Europe	8,774	8,935	7,677
Asia	1,459	1,399	1,093
	<u>18,274</u>	<u>18,833</u>	<u>17,007</u>
Power solutions	<u>3,716</u>	<u>2,928</u>	<u>2,272</u>
Net Sales	<u>\$ 32,235</u>	<u>\$ 27,479</u>	<u>\$ 24,603</u>
	Year Ended September 30,		
	2006	2005	2004
Operating Income			
Building efficiency			
North America Systems (1)	\$ 132	\$ 112	\$ 91
North America Service (2)	145	84	52
North America Unitary Products	71	—	—
Workplace Solutions (3)	67	68	59
Europe (4)	(7)	(7)	(6)
Rest of World (5)	128	38	45
	<u>536</u>	<u>295</u>	<u>241</u>
Automotive experience			
North America (6)	145	350	504
Europe (7)	383	252	113
Asia (8)	(28)	30	38
	<u>500</u>	<u>632</u>	<u>655</u>
Power solutions (9)	<u>443</u>	<u>349</u>	<u>237</u>
	<u>1,479</u>	<u>1,276</u>	<u>1,133</u>
Restructuring costs	(197)	(210)	(82)
Japanese pension gain	—	—	84
Operating income	<u>\$ 1,282</u>	<u>\$ 1,066</u>	<u>\$ 1,135</u>

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

	Year Ended September 30,		
	2006	2005	2004
Assets			
Building efficiency			
North America Systems	\$ 1,550	\$ 450	\$ 323
North America Service	1,442	382	325
North America Unitary Products	915	—	—
Workplace Solutions	707	547	654
Europe	1,940	534	421
Rest of World	2,036	559	508
	<u>8,590</u>	<u>2,472</u>	<u>2,231</u>
Automotive experience			
North America	3,284	4,050	3,646
Europe	5,224	5,260	5,186
Asia	851	866	751
	<u>9,359</u>	<u>10,176</u>	<u>9,583</u>
Power solutions	<u>2,827</u>	<u>3,000</u>	<u>2,562</u>
Unallocated	<u>1,145</u>	<u>496</u>	<u>382</u>
Total	<u>\$ 21,921</u>	<u>\$ 16,144</u>	<u>\$ 14,758</u>

	Year Ended September 30,		
	2006	2005	2004
Depreciation/Amortization			
Building efficiency			
North America Systems	\$ 15	\$ 3	\$ 3
North America Service	18	13	14
North America Unitary Products	9	—	—
Workplace Solutions	12	8	9
Europe	30	7	11
Rest of World	30	16	16
	<u>114</u>	<u>47</u>	<u>53</u>
Automotive experience			
North America	201	207	194
Europe	226	238	235
Asia	29	25	17
	<u>456</u>	<u>470</u>	<u>446</u>
Power solutions	<u>135</u>	<u>122</u>	<u>95</u>
Total	<u>\$ 705</u>	<u>\$ 639</u>	<u>\$ 594</u>

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

	Year Ended September 30,		
	2006	2005	2004
Capital Expenditures			
Building efficiency			
North America Systems	\$ 6	\$ 7	\$ 4
North America Service	13	5	9
North America Unitary Products	13	—	—
Workplace Solutions	14	14	7
Europe	18	3	4
Rest of World	25	12	9
	<u>89</u>	<u>41</u>	<u>33</u>
Automotive experience			
North America	218	267	306
Europe	182	203	355
Asia	25	56	41
	<u>425</u>	<u>526</u>	<u>702</u>
Power solutions	<u>197</u>	<u>97</u>	<u>82</u>
Total	<u>\$ 711</u>	<u>\$ 664</u>	<u>\$ 817</u>

- (1) Building efficiency — North America systems operating income for the years ended September 30, 2005 and 2004 excludes \$3 million and \$2 million, respectively, of restructuring costs.
- (2) Building efficiency — North America service operating income for the years ended September 30, 2006 and 2004 excludes \$1 million and \$2 million, respectively, of restructuring costs.
- (3) Building efficiency — Workplace solutions operating income for the years ended September 30, 2006 and 2005 excludes \$7 million and \$13 million, respectively, of restructuring costs.
- (4) Building efficiency — Europe operating income for the years ended September 30, 2006, 2005 and 2004 excludes \$40 million, \$8 million and \$8 million, respectively, of restructuring costs.
- (5) Building efficiency — Rest of world operating income for the years ended September 30, 2006, 2005 and 2004 excludes \$17 million, \$27 million and \$1 million, respectively, of restructuring costs.
- (6) Automotive experience — North America operating income for the years ended September 30, 2006, 2005 and 2004 excludes \$75 million, \$12 million and \$5 million, respectively, of restructuring costs.
- (7) Automotive experience — Europe operating income for the years ended September 30, 2006, 2005 and 2004 excludes \$53 million, \$130 million and \$51 million, respectively, of restructuring costs.
- (8) Automotive experience — Asia operating income for the year ended September 30, 2006 excludes \$1 million of restructuring costs. Automotive experience — Asia operating income for the year ended September 30, 2004 excludes a pension gain of \$84 million.
- (9) Power solutions operating income for the years ended September 30, 2006, 2005 and 2004 excludes \$3 million, \$17 million and \$13 million, respectively, of restructuring costs.

In fiscal year 2006, the Company recorded income related to a favorable legal settlement associated with the recovery of previously incurred environmental costs in the power solutions segment (\$33 million). The Company also recorded income related to this legal settlement in building efficiency — North America systems (\$7 million) and other segments (\$6 million), which was offset by other unfavorable commercial and legal settlements.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

The Company has significant sales to the automotive industry. The following is a summary of the percentages of net sales from major customers:

	Year ended September 30,		
	2006	2005	2004
General Motors Corporation	11%	14%	14%
DaimlerChrysler AG	11%	11%	11%
Ford Motor Company	10%	11%	14%

Approximately 40% of the Company's 2006 net sales to these customers were in the United States, 43% were European sales and 17% were attributable to sales in other foreign markets. As of September 30, 2006, the Company had accounts receivable totaling approximately \$1.4 billion from these customers.

Geographic Segments

Financial information relating to the Company's operations by geographic area is as follows (in millions):

	Year ended September 30,		
	2006	2005	2004
Net Sales			
United States	\$ 12,822	\$ 11,000	\$ 10,333
Germany	3,390	3,271	2,680
Other European countries	9,208	8,066	7,119
Other foreign	6,815	5,142	4,471
Total	<u>\$ 32,235</u>	<u>\$ 27,479</u>	<u>\$ 24,603</u>
Long-Lived Assets (Year-end)			
United States	\$ 1,563	\$ 1,355	\$ 1,222
Germany	448	640	640
Other European countries	1,044	723	794
Other foreign	913	863	678
Total	<u>\$ 3,968</u>	<u>\$ 3,581</u>	<u>\$ 3,334</u>

Net sales attributed to geographic locations are based on the location of the assets producing the sales. Long-lived assets by geographic location consist of net property, plant and equipment.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements

19. COMMITMENTS AND CONTINGENCIES

In 1989, Johnson Controls initiated an action in the Milwaukee County, Wisconsin Circuit Court, *Johnson Controls, Inc. v. Employers Insurance of Wausau*, which sought reimbursement under comprehensive general liability insurance policies dating from 1954 through 1985 for costs relating to certain environmental matters. In 1995, the Circuit Court dismissed the action based on the Wisconsin Supreme Court's decision in *City of Edgerton v. General Casualty Co. of Wisconsin*. The Company twice appealed the case to the Court of Appeals and then petitioned the Wisconsin Supreme Court to review the lower courts' judgments. The Supreme Court granted the petition and on July 11, 2003, overruled its decision in the Edgerton case, and found that the comprehensive general liability insurance policies may provide coverage for environmental damages. The Supreme Court's decision remanded the case to the Circuit Court for further consideration. In fiscal years 2005 and 2006, the Company filed motions for declaratory judgment, in which it seeks a ruling that some of its insurers breached their respective duties to defend, thus waiving defenses against the Company's environmental claims. The Company is currently in settlement negotiations with certain of the insurance company defendants and, in the third quarter of fiscal year 2006, reached agreement with one of the defendants. The ultimate outcome of claims against the other defendants cannot be determined at this time; however, the Company expects a decision on its motion during fiscal year 2007.

Following allegations in a U.N. Oil-For-Food Inquiry Report that, prior to the Company's acquisition of 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 Department of Justice (DOJ) and Securities and Exchange Commission (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 has also reviewed certain of York's sales practices in selected Asian markets. The factual inquiry is now substantially complete and indicates that in a number of instances, York engaged in conduct that may lead to enforcement actions against the Company under applicable U.S. laws, which give authorities the right to pursue administrative, civil and criminal sanctions, including monetary penalties. The Company has been voluntarily disclosing this information and offering continued cooperation with the DOJ and SEC, as well as to other relevant authorities in the U.S. Departments of Treasury, Commerce and Defense. The Company has begun preliminary discussions with the relevant authorities to explore how these matters may be resolved. The Company is in the process of evaluating and implementing various remedial measures with respect to the York operations. Based on our understanding of the scope of the potential violations, a review of the statutory penalty amounts articulated in the relevant statutes, our expectation that mitigating factors will be applied to reduce the amount of the penalties and our review of past settlements made by public companies in similar circumstances, the Company has determined a range of potential exposure and accrued for its best estimate in the York opening balance sheet. The Company expects resolution of this matter in fiscal year 2007.

Prior to the Company's acquisition of York, York had been named as one of many defendants in lawsuits alleging personal injury to one or more individuals from exposure to asbestos or asbestos-containing products previously manufactured by York or by companies from which York purchased product lines. As of September 30, 2006, the Company has recorded in the York opening balance sheet a liability of \$39 million for the estimated loss of known open asbestos-related claims and a receivable of \$8 million for estimated recoveries from our insurance carriers. The Company estimates losses based upon York's historical experience of actual losses incurred. The Company's estimate of asbestos-related liabilities for pending and expected future asbestos claims is subject to considerable uncertainty because such liabilities are influenced by numerous variables that are inherently difficult to predict, including but not limited to: the variable rate at which new claims are filed; the impact of bankruptcies of other companies currently or historically defending asbestos claims; the uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case; and unknown detail of each individual claim such as the plaintiff's employment history, severity and type of injury, age, and other key factors. The Company estimates recoveries based upon the terms of the proposed interim cost-sharing arrangement and availability of other insurance and indemnification coverage. Costs related to asbestos-related matters were not material to the Company's consolidated financial position, results of operations or cash flows for the fiscal year ended September 30, 2006.

**Johnson Controls, Inc.
Notes to Consolidated Financial Statements**

The Company is involved in a number of proceedings relating to environmental matters. At September 30, 2006 and 2005, the Company recorded a liability of approximately \$34 million and \$28 million, respectively, relating to environmental matters. The decrease in environmental liabilities from the prior year disclosure is primarily due to the adoption of FIN 47 in fiscal year 2006. 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, the Company's future expenses to remediate the currently identified sites could be considerably higher than the accrued liability. Although it is difficult to estimate the liability of the Company related to these environmental matters, the Company believes that these matters will not have a materially adverse effect upon its capital expenditures, consolidated net income or competitive position. Costs related to such matters were not material to the Company's consolidated financial position, results of operations or cash flows for the periods presented.

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

The Company has entered into supply contracts with certain vendors that include minimum volume requirements which, if not met, could subject the Company to potential liabilities. As of September 30, 2006, there were no known volume shortfalls that would materially impact the Company's consolidated financial position, results of operations or cash flows.

A significant portion of the Company's sales are to customers in the automotive industry. Future adverse developments in the automotive industry could impact the Company's liquidity position and/or require additional restructuring of the Company's operations. In addition, a downturn in the North America automotive market may also impact certain vendors' financial solvency, including the ability to meet restrictive debt covenants, resulting in potential liabilities or additional costs to the Company to ensure uninterrupted supply to its customers.

JOHNSON CONTROLS, INC. AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(In millions)

Year Ended September 30,	2006	2005	2004
Accounts Receivable — Allowance for Doubtful Accounts			
Balance at beginning of period	\$ 47	\$ 47	\$ 48
Provision charged to costs and expenses	30	25	24
Reserve adjustments	(14)	(10)	(11)
Accounts charged off	(17)	(17)	(18)
Acquisition of businesses	35	1	2
Currency translation	(1)	—	3
Other	—	1	(1)
Balance at end of period	<u>\$ 80</u>	<u>\$ 47</u>	<u>\$ 47</u>
Deferred Tax Assets — Valuation Allowance			
Balance at beginning of period	\$ 573	\$572	\$472
Allowance established for new operating and other loss carryforwards	26	96	113
Acquisition of businesses	60	—	—
Allowance reversed for loss carryforwards utilized and other adjustments	(304)	(95)	(13)
Balance at end of period	<u>\$ 355</u>	<u>\$573</u>	<u>\$572</u>

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon their evaluation of these disclosure controls and procedures, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of September 30, 2006 to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

Management’s Report on Internal Control Over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Table of Contents

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2006 using the criteria set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The Company concluded that it maintained effective internal controls over financial reporting as of September 30, 2006 based on criteria in *Internal Control — Integrated Framework* issued by the COSO.

Management's assessment of the effectiveness of our internal controls over financial reporting as of September 30, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in the Company's internal control over financial reporting during the quarter ended September 30, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B OTHER INFORMATION

On December 5, 2006, the Company entered into an amended and restated Credit Agreement, dated that day, among the Company, the financial institutions party thereto and JPMorgan Chase Bank, N.A., as administrative agent for the lenders (Credit Agreement). The Credit Agreement replaced the Company's existing \$1.6 billion five-year revolving credit facility that was scheduled to expire on October 5, 2010. There were no amounts outstanding under the facility on the date of its termination, and the Company did not incur any early termination penalties. The Company intends to use the revolving credit facility to provide a liquidity backstop for the Company's commercial paper. The facility is available for general corporate purposes.

The Credit Agreement provides for a revolving credit facility that matures in December 2011. The initial maximum aggregate amount of availability under the revolving credit facility is \$2.0 billion, of which the entire amount is currently undrawn and available. The Credit Agreement expressly contemplates that the Company may seek to increase the maximum aggregate amount of availability under the revolving credit facility by \$500 million. An increase is subject to the satisfaction of certain conditions, including the identification of lenders (which may include existing lenders or new lenders) willing to provide the additional commitments.

The description of the Credit Agreement set forth above is qualified by reference to the Credit Agreement filed herewith as Exhibit 4.E and incorporated herein by reference.

PART III

The information required by Part III, Items 10, 11, 12 and 14, is incorporated herein by reference to the Company's Proxy Statement for its 2007 Annual Meeting of Shareholders (fiscal year 2006 Proxy Statement), dated and to be filed with the SEC on December 6, 2006, as follows:

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference to sections entitled "Proposal One: Election of Directors," "Board Information," "Board Compensation," "Beneficial Ownership Reporting Compliance," "Q: Where can I find Corporate Governance materials for Johnson Controls?" and "Audit Committee Report" of the fiscal year 2006 Proxy Statement. Required information on executive officers of the Company appears at Part I, Item 4 of this report.

ITEM 11 EXECUTIVE COMPENSATION

Incorporated by reference to sections entitled "Executive Compensation," "Compensation Committee Report," "Performance Graph," "Board Information" and "Employment Agreements" of the fiscal year 2006 Proxy Statement.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference to sections entitled "Johnson Controls Share Ownership" and "Equity Compensation Plan Information" (located in the body of Proposal Three) of the fiscal year 2006 Proxy Statement.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference to the section entitled "Relationship with Independent Auditors" of the fiscal year 2006 Proxy Statement.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

	<u>Page in Form 10-K</u>
(a) The following documents are filed as part of this Form 10-K:	
(1) Financial Statements	
Report of Independent Registered Public Accounting Firm	44
Consolidated Statements of Income for the years ended September 30, 2006, 2005 and 2004	46
Consolidated Statements of Financial Position at September 30, 2006 and 2005	47
Consolidated Statements of Cash Flows for the years ended September 30, 2006, 2005 and 2004	48
Consolidated Statements of Shareholders' Equity for the years ended September 30, 2006, 2005 and 2004	49
Notes to Consolidated Financial Statements — September 30, 2006	50
(2) Financial Statement Schedule	
For the years ended September 30, 2006, 2005 and 2004:	
Schedule II — Valuation and Qualifying Accounts	88
(3) Exhibits	

Reference is made to the separate exhibit index contained on pages 93 through 95 filed herewith.

All other schedules are omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.

Financial statements of 50% or less-owned companies have been omitted because the proportionate share of their profit before income taxes and total assets are less than 20% of the respective consolidated amounts, and investments in such companies are less than 20% of consolidated total assets.

Other Matters

For the purposes of complying with the amendments to the rules governing Form S-8 under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into registrant's Registration Statements on Form S-8 Nos. 33-30309, 33-31271, 33-58092, 33-58094, 333-10707, 333-66073, 333-41564 and 333-117898.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

JOHNSON CONTROLS, INC.

By /s/ R. Bruce McDonald
R. Bruce McDonald
Executive Vice President and
Chief Financial Officer

Date: December 5, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of December 5, 2006, by the following persons on behalf of the registrant and in the capacities indicated:

/s/ John M. Barth
John M. Barth
Chief Executive Officer
and Director (Chairman)

/s/ R. Bruce McDonald
R. Bruce McDonald
Executive Vice President and
Chief Financial Officer

/s/ Dennis W. Archer
Dennis W. Archer
Director

/s/ Natalie A. Black
Natalie A. Black
Director

/s/ Robert A. Cornog
Robert A. Cornog
Director

/s/ William H. Lacy
William H. Lacy
Director

/s/ Eugenio Clariond Reyes-Ratana
Eugenio Clariond Reyes-Ratana
Director

/s/ Stephen A. Roell
Stephen A. Roell
Vice Chairman and
Executive Vice President

/s/ Jeffrey G. Augustin
Jeffrey G. Augustin
Vice President and Corporate
Controller (Principal Accounting
Officer)

/s/ Robert L. Barnett
Robert L. Barnett
Director

/s/ Paul A. Brunner
Paul A. Brunner
Director

/s/ Jeffrey A. Joerres
Jeffrey A. Joerres
Director

/s/ Southwood J. Morcott
Southwood J. Morcott
Director

/s/ Richard F. Teerlink
Richard F. Teerlink
Director

**Johnson Controls, Inc.
Index to Exhibits**

Exhibit	Title
3.(i)	Composite of Restated Articles of Incorporation of Johnson Controls, Inc., as amended through December 12, 2003 (incorporated by reference to Exhibit 3.(ii) to Johnson Controls, Inc. Quarterly Report on Form 10-Q for the quarter ended December 31, 2003) (Commission File No. 1-5097).
3.(ii)	By-laws of Johnson Controls, Inc., as amended November 15, 2006 (incorporated by reference to Exhibit 3 to Johnson Controls, Inc. Current Report on Form 8-K dated November 17, 2006) (Commission File No. 1-5097).
4.A	Miscellaneous long-term debt agreements and financing leases with banks and other creditors and debenture indentures.*
4.B	Miscellaneous industrial development bond long-term debt issues and related loan agreements and leases.*
4.C	Letter of agreement dated December 6, 1990 between Johnson Controls, Inc., LaSalle National Trust, N.A. and Fidelity Management Trust Company which replaces LaSalle National Trust, N.A. as Trustee of the Johnson Controls, Inc. Employee Stock Ownership Plan Trust with Fidelity Management Trust Company as Successor Trustee, effective January 1, 1991 (incorporated by reference to Exhibit 4.F to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 1991) (Commission File No. 1-5097).
4.D	Indenture for debt securities dated January 17, 2006 between Johnson Controls, Inc. and The Bank of New York, as successor trustee to JP Morgan Chase Bank, National Association (incorporated by reference to Exhibit 4.1 to Johnson Controls, Inc. Registration Statement on Form S-3ASR [Reg. No. 333-130714]).
4.E	Amended and restated Credit Agreement, dated December 5, 2006, among Johnson Controls, Inc., the financial institutions party thereto and JPMorgan Chase Bank, N.A., as administrative agent for the lenders, filed herewith.
10.A	Johnson Controls, Inc. 1992 Stock Option Plan, as amended on September 16, 2006, filed herewith.**
10.B	Johnson Controls, Inc. Common Stock Purchase Plan for Executives as amended November 17, 2004 and effective December 1, 2004 (incorporated by reference to Exhibit 10.B to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2004) (Commission File No. 1-5097).**
10.D	Johnson Controls, Inc. Deferred Compensation Plan for Certain Directors as amended on November 15, 2006, filed herewith.**
10.H	Johnson Controls, Inc. Executive Survivor Benefits Plan amended through October 1, 2001 (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2001) (Commission File No. 1-5097).**
10.K	Form of employment agreement effective May 23, 2005, between Johnson Controls, Inc. and all elected officers (incorporated by reference to Exhibit 99 to Johnson Controls, Inc. Current Report on Form 8-K dated May 23, 2005) (Commission File No. 1-5097).**
10.L	Form of indemnity agreement effective September 21, 2005, between Johnson Controls, Inc. and each of the directors and elected officers (incorporated by reference to Exhibit 10.1 to Johnson Controls, Inc. Current Report on Form 8-K dated September 21, 2005) (Commission File No. 1-5097). **
10.M	Johnson Controls, Inc. Director Share Unit Plan, as amended on November 15, 2006, filed herewith.**

**Johnson Controls, Inc.
Index to Exhibits**

Exhibit	Title
10.N	Johnson Controls, Inc. 2000 Stock Option Plan, as last amended on September 16, 2006, filed herewith.**
10.O	Form of stock option award agreement for Johnson Controls, Inc. 2000 Stock Option Plan, as amended through October 1, 2001, as in use through March 20, 2006 (incorporated by reference to Exhibit 10.1 to Johnson Controls, Inc. Current Report on Form 8-K dated November 17, 2004) (Commission File No. 1-5097).**
10.P	Johnson Controls, Inc. 2001 Restricted Stock Plan, as amended March 21, 2006 (incorporated by reference to Exhibit 10.2 to Johnson Controls, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2006) (Commission File No. 1-5097).**
10.Q	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, as amended and restated effective October 1, 2003, as in use through January 2004 (incorporated by reference to Exhibit 10.Q to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2005) (Commission File No. 1-5097).**
10.R	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, as amended March 21, 2006, as approved for use for future grants, filed herewith.**
10.S	Johnson Controls, Inc. Executive Deferred Compensation Plan, as amended on November 14, 2006, filed herewith.**
10.T	Johnson Controls, Inc. 2003 Stock Plan for Outside Directors, as amended and restated effective October 1, 2006, filed herewith.**
10.U	Letter agreement as accepted by the Company on November 6, 2006 between Johnson Controls, Inc. and Giovanni Fiori relating to Mr. Fiori's retirement date, filed herewith, in accordance with the terms of the letter agreement dated November 29, 2004 amending Giovanni Fiori's Executive Employment Agreement (incorporated by reference to Exhibit 10.S to Johnson Controls, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2005), relating to the letter agreement dated November 21, 2002 amending Giovanni Fiori's Executive Employment Agreement (incorporated by reference to Exhibit 10.R to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2003), and to the Johnson Controls, Inc. Executive Survivor Benefits Plan (incorporated by reference to Exhibit 10.I to Johnson Controls, Inc. Annual Report on Form 10-K for the year ended September 30, 2001) (Commission File No. 1-5097).**
10.V	Agreement and Plan of Merger between Johnson Controls, Inc., YJC Acquisition Corp., and York International Corp. effective August 24, 2005 (incorporated by reference to Exhibit 2 to Johnson Controls, Inc. Current Report on Form 8-K/A dated August 24, 2005) (Commission File No. 1-5097).
10.Y	Johnson Controls, Inc. Annual and Long-Term Incentive Performance Plan, effective October 1, 2005 (incorporated by reference to Appendix A of the Definitive Proxy Statement of Johnson Controls, Inc. filed on Schedule 14A on December 12, 2005) (Commission File No. 1-5097).**
10.Z	Johnson Controls, Inc. Retirement Restoration Plan, approved on September 16, 2006, filed herewith.**
10.AA	Summary of Non-Employee Director Compensation approved on November 15, 2006, filed herewith.**
10.BB	Form of restricted stock award agreement for Johnson Controls, Inc. 2001 Restricted Stock Plan, for grants made on January 3, 2006, filed herewith.**

**Johnson Controls, Inc.
Index to Exhibits**

Exhibit	Title
10.CC	Form of stock option award agreement for Johnson Controls, Inc. 2000 Stock Option Plan, as amended September 16, 2006, as approved for use for future grants, filed herewith.**
21	Subsidiaries of the Registrant, filed herewith.
23	Consent of Independent Registered Public Accounting Firm dated December 1, 2006, filed herewith.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

* These instruments are not being filed as exhibits herewith because none of the long-term debt instruments authorizes the issuance of debt in excess of 10% of the total assets of Johnson Controls, Inc. and its subsidiaries on a consolidated basis. Johnson Controls, Inc. agrees to furnish a copy of each such agreement to the Securities and Exchange Commission upon request.

** Denotes a management contract or compensatory plan.

\$2,000,000,000

**AMENDED AND RESTATED
CREDIT AGREEMENT**

dated as of

December 5, 2006

among

Johnson Controls, Inc.,
as Borrower and Guarantor,

The Eligible Subsidiaries Referred to Herein,
as Borrowers,

The Lenders Parties Hereto

and

JPMorgan Chase Bank, N.A.,
as Administrative Agent

J.P. Morgan Securities Inc.,
Sole Lead Arranger and Bookrunner

Bank of America, N.A.
Barclays Bank PLC
and
Citibank, N.A.,
Co-Syndication Agents

TABLE OF CONTENTS

	<u>PAGE</u>
ARTICLE 1	
DEFINITIONS	
Section 1.01 . <i>Definitions</i>	1
Section 1.02 . <i>Accounting Terms and Determinations</i>	13
Section 1.03 . <i>Types of Loans and Borrowings</i>	14
ARTICLE 2	
THE CREDITS	
Section 2.01 . <i>Commitments to Lend</i>	14
Section 2.02 . <i>Notice of Borrowing</i>	15
Section 2.03 . <i>Notice to Lenders; Funding of Loans</i>	16
Section 2.04 . <i>Notes</i>	17
Section 2.05 . <i>Maturity of Loans</i>	18
Section 2.06 . <i>Interest Rates</i>	18
Section 2.07 . <i>Fees</i>	19
Section 2.08 . <i>Optional Termination or Reduction of Commitments</i>	20
Section 2.09 . <i>Mandatory Termination of Commitments</i>	20
Section 2.10 . <i>Optional Prepayments</i>	20
Section 2.11 . <i>General Provisions as to Payments</i>	20
Section 2.12 . <i>Funding Losses</i>	21
Section 2.13 . <i>Computation of Interest and Fees</i>	22
Section 2.14 . <i>Regulation D Compensation</i>	22
Section 2.15 . <i>Method of Electing Interest Rates</i>	22
Section 2.16 . <i>Determining Dollar Amounts; Related Mandatory Prepayments</i>	24
Section 2.17 . <i>Additional Reserve Costs</i>	25
Section 2.18 . <i>Judgment Currency</i>	26
Section 2.19 . <i>Letters of Credit</i>	26
Section 2.20 . <i>Increased Commitments, Additional Lenders</i>	30
ARTICLE 3	
CONDITIONS	
Section 3.01 . <i>Effectiveness</i>	31
Section 3.02 . <i>Borrowings and Issuances of Letters of Credit</i>	32
Section 3.03 . <i>First Borrowing by Each Eligible Subsidiary</i>	33

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Section 4.01 .	<i>Legal Existence and Power</i>	34
Section 4.02.	<i>Legal and Governmental Authorization; No Contravention</i>	34
Section 4.03.	<i>Binding Effect</i>	34
Section 4.04.	<i>Financial Information</i>	35
Section 4.05.	<i>Litigation</i>	35
Section 4.06.	<i>Compliance with ERISA</i>	35
Section 4.07.	<i>Environmental Matters</i>	36
Section 4.08.	<i>Taxes</i>	36
Section 4.09.	<i>Subsidiaries</i>	36
Section 4.10.	<i>Not an Investment Company</i>	37
Section 4.11.	<i>Full Disclosure</i>	37

ARTICLE 5
COVENANTS

Section 5.01.	<i>Information</i>	37
Section 5.02.	<i>Payment of Obligations</i>	39
Section 5.03.	<i>Maintenance of Property; Insurance</i>	39
Section 5.04.	<i>Conduct of Business and Maintenance of Existence</i>	40
Section 5.05.	<i>Compliance with Laws</i>	40
Section 5.06.	<i>Inspection of Property, Books and Records</i>	40
Section 5.07.	<i>Minimum Consolidated Stockholder's Equity</i>	40
Section 5.08.	<i>Negative Pledge</i>	40
Section 5.09.	<i>Consolidation, Mergers and Sales of Assets</i>	41
Section 5.10.	<i>Use of Proceeds</i>	42

ARTICLE 6
DEFAULTS

Section 6.01.	<i>Events of Default</i>	42
Section 6.02.	<i>Notice of Default</i>	45
Section 6.03 .	<i>Cash Cover</i>	45

ARTICLE 7
THE ADMINISTRATIVE AGENT

Section 7.01 .	<i>Appointment and Authorization</i>	45
Section 7.02.	<i>Administrative Agent and Affiliates</i>	45
Section 7.03.	<i>Action by Administrative Agent</i>	45
Section 7.04.	<i>Consultation with Experts</i>	45
Section 7.05.	<i>Liability of Administrative Agent</i>	46
Section 7.06.	<i>Indemnification</i>	46

	<u>PAGE</u>
Section 7.07. <i>Credit Decision</i>	46
Section 7.08. <i>Successor Administrative Agent</i>	46
Section 7.09. <i>Administrative Agent's Fee</i>	47
Section 7.10. <i>Co-Syndication Agents</i>	47

ARTICLE 8 CHANGE IN CIRCUMSTANCES

Section 8.01. <i>Basis for Determining Interest Rate Inadequate or Unfair</i>	47
Section 8.02. <i>Illegality</i>	48
Section 8.03. <i>Increased Cost and Reduced Return</i>	48
Section 8.04. <i>Taxes</i>	50
Section 8.05. <i>Base Rate Loans Substituted for Affected Euro-Currency Loans</i>	52

ARTICLE 9 REPRESENTATIONS AND WARRANTIES OF ELIGIBLE SUBSIDIARIES

Section 9.01. <i>Legal Existence and Power</i>	53
Section 9.02. <i>Legal and Governmental Authorization; No Contravention</i>	53
Section 9.03. <i>Binding Effect</i>	53
Section 9.04. <i>Taxes</i>	53

ARTICLE 10 GUARANTY

Section 10.01. <i>The Guaranty</i>	53
Section 10.02. <i>Guaranty Unconditional</i>	54
Section 10.03. <i>Discharge Only Upon Payment In Full; Reinstatement In Certain Circumstances</i>	54
Section 10.04. <i>Waiver by the Company</i>	55
Section 10.05. <i>Subrogation</i>	55
Section 10.06. <i>Stay of Acceleration</i>	55

ARTICLE 11 MISCELLANEOUS

Section 11.01. <i>Notices</i>	55
Section 11.02. <i>No Waivers</i>	56
Section 11.03. <i>Expenses; Indemnification</i>	56
Section 11.04. <i>Sharing of Set-offs</i>	57
Section 11.05. <i>Amendments and Waivers</i>	57
Section 11.06. <i>Successors and Assigns</i>	58
Section 11.07. <i>Collateral</i>	61
Section 11.08. <i>Governing Law; Submission to Jurisdiction</i>	61

	<u>PAGE</u>
Section 11.09 . <i>Counterparts; Integration</i>	61
Section 11.10 . <i>Waiver of Jury Trial</i>	61
Section 11.11 . <i>Confidentiality</i>	61

COMMITMENT SCHEDULE

PRICING SCHEDULE

SCHEDULE I

EXHIBIT A - Form of Note

EXHIBIT B - Opinion of General Counsel of the Company

EXHIBIT C - Opinion of Special Counsel of the Administrative Agent

EXHIBIT D - Form of Election to Participate

EXHIBIT E - Form of Election to Terminate

EXHIBIT F - Opinion of Counsel of the Borrower (Borrowings by Eligible Subsidiaries)

EXHIBIT G - Assignment and Assumption Agreement

EXHIBIT H - Mandatory Costs Rate

EXHIBIT I - Extension Agreement

AMENDED AND RESTATED CREDIT AGREEMENT dated as of December 5, 2006 among JOHNSON CONTROLS, INC., the ELIGIBLE SUBSIDIARIES referred to herein, the LENDERS from time to time parties hereto and JPMORGAN CHASE BANK, N.A., as Administrative Agent.

WHEREAS, [certain of] the parties hereto have heretofore entered into a Five-Year Credit Agreement dated as of October 5, 2005 (the “**Existing Agreement**”);

WHEREAS, at the date hereof, there are no Loans outstanding under the Existing Agreement; and

WHEREAS, the parties hereto desire to amend the Existing Agreement as set forth herein and to restate the Existing Agreement in its entirety to read as set forth below;

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS

Section 1.01 . *Definitions.* The following terms, as used herein, have the following meanings:

“**Additional Lender**” has the meaning set forth in Section 2.20(b).

“**Administrative Agent**” means JPMorgan Chase Bank, N.A. in its capacity as agent for the Lenders hereunder, and its successors in such capacity.

“**Administrative Questionnaire**” means, with respect to each Lender, an administrative questionnaire in the form prepared by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Company) duly completed by such Lender.

“**Agreement**” means the Existing Agreement, as amended by this Amended Agreement, and as the same may be further amended from time to time after the date hereof.

“**Amended Agreement**” means this Amended and Restated Credit Agreement dated as of December 5, 2006.

“**Alternative Currency**” means Euro or Sterling.

“ **Alternative Currency Loan** ” means a Loan that is made in an Alternative Currency pursuant to the applicable Notice of Borrowing.

“ **Applicable Lending Office** ” means, with respect to any Lender, (i) in the case of its Base Rate Loans, its Domestic Lending Office and (ii) in the case of its Euro-Currency Loans, its Euro-Currency Lending Office.

“ **Assignee** ” has the meaning set forth in Section 11.06(c).

“ **Base Rate** ” means, for any day, a rate per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of $\frac{1}{2}$ of 1% plus the Federal Funds Rate for such day.

“ **Base Rate Loan** ” means a Loan which bears interest at the Base Rate pursuant to the applicable Notice of Borrowing or Notice of Interest Rate Election or the provisions of Section 2.06(a) or Article 8.

“ **Benefit Arrangement** ” means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any member of the ERISA Group.

“ **Borrower** ” means the Company or any Eligible Subsidiary, as the context may require, and their respective successors, and “ **Borrowers** ” means all of the foregoing. When used in relation to any Loan or Letter of Credit, references to “ **the Borrower** ” are to the particular Borrower to which such Loan is or is to be made or at whose request such Letter of Credit is or is to be issued.

“ **Borrowing** ” has the meaning set forth in Section 1.03.

“ **Cash Collateralize** ” means to pledge and deposit with or deliver to the Issuing Lender, as collateral for the applicable outstanding Letter of Credit, cash or deposit account balances pursuant to documentation in form and substance reasonably satisfactory to the Issuing Lender in an amount equal to 105% of the face amount of such Letter of Credit. Each Borrower hereby grants to the Issuing Lender, for the benefit of the Issuing Lender and the Lenders, a security interest in all of its right, title and interest (if any) in such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash collateral shall be maintained in blocked interest bearing (to the extent available) deposit accounts at the Issuing Lender.

“ **Commitment** ” means (i) with respect to each Lender, the amount of such Lender’s Commitment, as such amount is set forth opposite the name of such Lender on the Commitment Schedule, (ii) with respect to any Additional Lender, the amount of the Commitment assumed by it pursuant to Section 2.20 and (iii)

with respect to any Assignee, the amount of the transferor Lender's Commitment assigned to it pursuant to Section 11.06(c), in each case as such amount may be changed from time to time pursuant to Section 2.09, 2.20 or 11.06(c); *provided* that, if the context so requires, the term "**Commitment**" means the obligation of a Lender to extend credit up to such amount to the Borrowers hereunder.

"**Commitment Schedule**" means the Schedule attached hereto identified as such.

"**Company**" means Johnson Controls, Inc., a Wisconsin corporation ("**JCI**"), and its successors *provided* that upon consummation of a Holding Company Reorganization in compliance with Section 5.09, the Holding Company shall thereafter be the Company for purposes hereof, except that any reference made to the Company as of a specific date prior to any such Holding Company Reorganization shall continue to refer to JCI.

"**Company's 2005 Form 10-K**" means the Company's annual report on Form 10-K for 2005, as amended, filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

"**Conduit**" means a special purpose corporation which is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business.

"**Conduit Designation**" has the meaning set forth in Section 11.06(f).

"**Consolidated Stockholders' Equity**" means at any date the stockholders' or members' equity of the Company and its Consolidated Subsidiaries determined on a consolidated basis as of such date in accordance with GAAP; *provided* that, for purposes hereof, the consolidated stockholders' or members' equity of the Company and its Consolidated Subsidiaries shall be calculated without giving effect to (i) the application of Financial Accounting Standards Board Statement No. 106 or (ii) the cumulative foreign currency translation adjustment.

"**Consolidated Subsidiary**" shall mean, as to any Person, each Subsidiary of such Person (whether now existing or hereafter created or acquired) the financial statements of which shall be (or should have been) consolidated with the financial statements of such Person in accordance with GAAP.

"**Co-Syndication Agents**" means Bank of America, N.A., Barclays Bank plc and Citibank, N.A. in their respective capacities as Co-Syndication Agents in connection with the credit facility provided hereunder.

“ **Credit Exposure** ” means, with respect to any Lender at any time, (i) the amount of its Commitment (whether used or unused) at such time or (ii) if the Commitments have terminated in their entirety, the sum of the aggregate Dollar Amount of its Loans at such time plus the aggregate Dollar Amount of its Letter of Credit Liabilities at such time.

“ **Debt** ” of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee which are capitalized in accordance with GAAP, (v) all Debt (as defined in one of the other clauses of this definition) of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person; *provided* that, for purposes of determining the amount of any Debt of the type described in this clause (v), if recourse with respect to such Debt is limited to such asset, the amount of such Debt shall be limited to the lesser of (A) the greater of (x) the book value of such asset or (y) the fair market value of such asset or (B) the amount of such Debt and (vi) all Debt of others Guaranteed by such Person (each such Guarantee to constitute Debt in an amount equal to the lesser of (A) the stated maximum amount of such Guarantee, if any, or (B) the amount of such other Person’s Debt Guaranteed thereby); *provided* that Debt shall not include obligations in respect of letters of credit to secure the performance of bids, trade contracts (other than for Debt), operating leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business and letters of credit issued in connection with the Company’s self-insurance programs for workman’s compensation, product liability and general liability.

“ **Default** ” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“ **Dollar Amount** ” means, at any time:

- (i) with respect to any Dollar-Denominated Loan, the principal amount thereof then outstanding;
- (ii) with respect to any Alternative Currency Loan, the principal amount thereof then outstanding in the relevant Alternative Currency, converted to Dollars in accordance with Section 2.16(a); and
- (iii) with respect to any Letter of Credit Liabilities, (A) if denominated in Dollars, the amount thereof and (B) if denominated in an

Alternative Currency, the amount thereof converted to Dollars in accordance with Section 2.16(b).

“ **Dollar-Denominated Loan** ” means a Loan that is made in Dollars pursuant to the applicable Notice of Borrowing.

“ **Dollars** ” and the sign “ **\$** ” mean lawful currency of the United States.

“ **Domestic Business Day** ” means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized by law to close.

“ **Domestic Lending Office** ” means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Domestic Lending Office) or such other office as such Lender may hereafter designate as its Domestic Lending Office by notice to the Company and the Administrative Agent.

“ **Effective Date** ” means the date on which this Amended Agreement becomes effective pursuant to Section 3.01.

“ **Election to Participate** ” means an Election to Participate substantially in the form of Exhibit D hereto.

“ **Election to Terminate** ” means an Election to Terminate substantially in the form of Exhibit E hereto.

“ **Eligible Subsidiary** ” means any Wholly-Owned Consolidated Subsidiary of the Company as to which an Election to Participate shall have been delivered to the Administrative Agent and as to which an Election to Terminate shall not have been delivered to the Administrative Agent. Each such Election to Participate and Election to Terminate shall be duly executed on behalf of such Wholly-Owned Consolidated Subsidiary and the Company in such number of copies as the Administrative Agent may request. The delivery of an Election to Terminate shall not affect any obligation of an Eligible Subsidiary theretofore incurred. The Administrative Agent shall promptly give notice to the Lenders of the receipt of any Election to Participate or Election to Terminate.

“ **Environmental Laws** ” means any and all federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise

relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes or the clean-up or other remediation thereof.

“ **ERISA** ” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ **ERISA Group** ” means the Company, any Consolidated Subsidiary and all members of a controlled group of corporations or other entities and all trades or businesses (whether or not incorporated) under common control which, together with the Company or any Consolidated Subsidiary, are treated as a single employer under Section 414 of the Internal Revenue Code.

“ **Euro** ” means the single currency of the Participating Member States.

“ **Euro-Currency Business Day** ” means a Euro-Dollar Business Day, unless such term is used in connection with an Alternative Currency Borrowing or Alternative Currency Loan, in which case such day shall only be a Euro-Currency Business Day if (i) commercial banks are open for international business (including dealings in deposits in such Alternative Currency) in London and (ii) if such Alternative Currency is Euro, the Trans-European Automated Real-time Gross settlement Express Transfer (or “TARGET”) payment system is open for the settlement of payment in Euro.

“ **Euro-Currency Lending Office** ” means, as to each Lender, its office, branch or affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Currency Lending Office) or such other office, branch or affiliate of such Lender as it may hereafter designate as its Euro-Currency Lending Office by notice to the Company and the Administrative Agent; *provided* that any Lender may from time to time by notice to the Company and the Administrative Agent designate separate Euro-Currency Lending Offices for its Loans in different currencies, in which case all references herein to the Euro-Currency Lending Office of such Lender shall be deemed to refer to any or all of such offices, as the context may require.

“ **Euro-Currency Loan** ” means either a Euro-Dollar Loan or an Alternative Currency Loan.

“ **Euro-Currency Margin** ” means, at any date, the applicable rate per annum determined in accordance with the Pricing Schedule.

“ **Euro-Currency Rate** ” means a rate of interest determined pursuant to Section 2.06(b) on the basis of a London Interbank Offered Rate.

“ **Euro-Currency Reserve Percentage** ” means, for any day, that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding five billion dollars in respect of “ **Eurocurrency liabilities** ” (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on Euro-Currency Loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of any Lender to United States residents).

“ **Euro-Dollar Business Day** ” means any Domestic Business Day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“ **Euro-Dollar Loan** ” means a Dollar-Denominated Loan that bears interest at a Euro-Currency Rate pursuant to the applicable Notice of Borrowing or Notice of Interest Rate Election.

“ **Event of Default** ” has the meaning set forth in Section 6.01.

“ **Existing Agreement** ” means the \$1,600,000,000 Five-Year Credit Agreement dated as of October 5, 2005 among the Company, the Eligible Subsidiaries referred to therein, the banks parties thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent.

“ **Facility Fee Rate** ” means, at any date, the applicable rate per annum determined in accordance with the Pricing Schedule.

“ **Federal Funds Rate** ” means, for any day, the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Domestic Business Day next succeeding such day; *provided* that (i) if such day is not a Domestic Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Domestic Business Day as so published on the next succeeding Domestic Business Day, and (ii) if no such rate is so published on such next succeeding Domestic Business Day, the Federal Funds Rate for such day shall be the average rate quoted to JPMorgan Chase Bank, N.A. on such day on such transactions as determined by the Administrative Agent.

“ **GAAP** ” shall mean generally accepted accounting principles as in effect from time to time.

“ **Group of Loans** ” means, at any time, a group of Loans consisting of (i) all Loans to the same Borrower which are Base Rate Loans at such time or (ii) all Loans which are Euro-Currency Loans in the same currency to the same Borrower having the same Interest Period at such time, *provided* that, if a Loan of any particular Lender is converted to or made as a Base Rate Loan pursuant to Article 8, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“ **Guarantee** ” by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the holder of such Debt of the payment thereof or to protect such holder against loss in respect thereof (in whole or in part); *provided* that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term “ **Guarantee** ” used as a verb has a corresponding meaning.

“ **Holding Company** ” means a corporation or other legal entity organized under the laws of a State of the United States which becomes the direct or indirect owner of equity interests of the Company and its Subsidiaries pursuant to a Holding Company Reorganization.

“ **Holding Company Reorganization** ” means a transaction or series of transactions pursuant to which the Company becomes a direct or indirect wholly-owned subsidiary of the Holding Company.

“ **Increased Commitments** ” has the meaning set forth in Section 2.20(a).

“ **Indemnitee** ” has the meaning set forth in Section 11.03(b).

“ **Interest Period** ” means, with respect to each Euro-Currency Loan, the period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in an applicable Notice of Interest Rate Election and ending one, two, three or six months thereafter (or such other period of time as may at the time be mutually agreed by the Borrower and the Lenders), as the Borrower may elect in such notice; *provided* that:

(a) any Interest Period which would otherwise end on a day which is not a Euro-Currency Business Day shall be extended to the next succeeding Euro-Currency Business Day unless such Euro-Currency

Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Euro-Currency Business Day; and

(b) any Interest Period which begins on the last Euro-Currency Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Euro-Currency Business Day of a calendar month; and

(c) any Interest Period applicable to any Loan of any Lender which would otherwise end after the Termination Date for such Lender shall end on the Termination Date for such Lender.

“ **Internal Revenue Code** ” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“ **Issuing Lender** ” means JPMorgan Chase Bank, N.A. and any other Lender that may agree to issue letters of credit hereunder pursuant to an instrument in form satisfactory to the Company, such Lender and the Administrative Agent, in its capacity as issuer of a Letter of Credit hereunder. Unless the context otherwise requires, any reference herein to a “ **Lender** ” includes each Issuing Lender.

“ **LC Termination Date** ” means, at any time, the fifth Business Day prior to the earliest Termination Date then in effect as to any Lender.

“ **Lender** ” means each Person listed in the Commitment Schedule, each Additional Lender or Assignee which becomes a Lender pursuant to Section 2.20 or 11.06(c), and their respective successors.

“ **Lender Affiliate** ” means, (a) with respect to any Lender, (i) an Affiliate of such Lender or (ii) any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by such Lender or an Affiliate of such Lender and (b) with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor. As used in this definition, (x) “ **Affiliate** ” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with such specified Person and (y) “ **Control** ” means possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the

ability to exercise voting power, by contract or otherwise (and “Controlled” has a meaning correlative thereto).

“ **Letter of Credit** ” means a letter of credit to be issued hereunder by the Issuing Lender in accordance with Section 2.19.

“ **Letter of Credit Liabilities** ” means, for any Lender and at any time, such Lender’s ratable participation in the sum of (x) the amounts then owing by the Borrowers in respect of amounts drawn under Letters of Credit and (y) the aggregate amount then available for drawing under all Letters of Credit.

“ **Lien** ” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset. For the purposes of this Agreement, the Company or any Consolidated Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset (other than an operating lease).

“ **Loan** ” means a loan made by a Lender pursuant to Section 2.01; *provided* that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Interest Rate Election, the term “ **Loan** ” shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

“ **London Interbank Offered Rate** ” has the meaning set forth in Section 2.06(b).

“ **London Office** ” means the office of the Administrative Agent identified on the signature pages hereof as its London office, or such other office of the Administrative Agent as it may specify for such purpose by notice to the other parties hereto.

“ **Material Debt** ” means Debt (other than the Loans) of the Company and/or one or more of its Consolidated Subsidiaries, arising in one or more related or unrelated transactions, in an aggregate principal amount exceeding \$100,000,000.

“ **Material Plan** ” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$100,000,000.

“ **Multiemployer Plan** ” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions

or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five year period.

“ **New York Office** ” means the office of the Administrative Agent identified on the signature pages hereof as its New York office, or such other office of the Administrative Agent as it may specify for such purpose by notice to the other parties hereto.

“ **Notes** ” means promissory notes of a Borrower, substantially in the form of Exhibit A hereto, evidencing the obligation of such Borrower to repay the Loans made to it, and “ **Note** ” means any one of such promissory notes issued hereunder.

“ **Notice of Borrowing** ” has the meaning set forth in Section 2.02.

“ **Notice of Interest Rate Election** ” has the meaning set forth in Section 2.15.

“ **Notice of Issuance** ” has the meaning set forth in Section 2.19(b).

“ **Outstanding Amount** ” means, as to any Lender at any time, the sum of (i) the aggregate Dollar Amount of Loans made by it outstanding at such time plus (ii) the aggregate Dollar Amount of its Letter of Credit Liabilities at such time.

“ **Parent** ” means, with respect to any Lender, any Person controlling such Lender.

“ **Participant** ” has the meaning set forth in Section 11.06(b).

“ **Participating Member States** ” means those members of the European Union from time to time which adopt a single, shared currency.

“ **PBGC** ” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“ **Person** ” means an individual, a corporation, a limited liability company, a partnership, an association, a trust, a limited liability company or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“ **Plan** ” means at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for

employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“ **Pricing Schedule** ” means the Schedule attached hereto identified as such.

“ **Prime Rate** ” means the rate of interest publicly announced by JPMorgan Chase Bank, N.A. in New York City from time to time as its Prime Rate.

“ **Quarterly Payment Date** ” means each March 31, June 30, September 30 and December 31.

“ **Regulation U** ” means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

“ **Reimbursement Obligation** ” has the meaning set forth in Section 2.19(d).

“ **Required Lenders** ” means at any time Lenders having more than 50% of the aggregate amount of the Credit Exposures at such time.

“ **Spot Rate** ” means, for any Alternative Currency on any day, the average of the Administrative Agent’s spot buying and selling rates for the exchange of such Alternative Currency and Dollars as of approximately 11:00 A.M. (London time) on such day.

“ **Sterling** ” means the lawful currency of the United Kingdom.

“ **Sterling Loan** ” means a Loan that is made in Sterling pursuant to the applicable Notice of Borrowing.

“ **Stop Issuance Notice** ” has the meaning set forth in Section 2.19(g).

“ **Subsidiary** ” means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the total voting power of shares of stock (or comparable ownership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of the Person or a combination thereof.

“ **Termination Date** ” means, as to each Lender, December 5 , 2011 or, in the case of any Lender, such later date to which the Commitment of such Lender shall have been extended pursuant to Section 2.01(b) (or, if any of the foregoing

days is not a Euro-Dollar Business Day, the next preceding Euro-Dollar Business Day).

“ **Total Outstanding Amount** ” means, at any time, the aggregate Dollar Amount of all Loans outstanding at such time plus the aggregate Dollar Amount of the Letter of Credit Liabilities of all Lenders at such time.

“ **Type** ” refers to the determination whether a loan is a Base Rate Loan or a Euro-Dollar Loan.

“ **Unfunded Liabilities** ” means, with respect to any Plan at any time, the amount (if any) by which (i) the present value of all benefits under such Plan exceeds (ii) the fair market value of all Plan assets allocable to such benefits (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“ **United States** ” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“ **Wholly-Owned Consolidated Subsidiary** ” means any Consolidated Subsidiary all of the shares of capital stock or other ownership interests of which (except directors’ qualifying shares) are at the time directly or indirectly owned by the Company.

Section 1.02 . *Accounting Terms and Determinations.* Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Company’s independent public accountants) with the most recent audited consolidated financial statements of the Company and its Consolidated Subsidiaries delivered to the Lenders; *provided* that, if the Company notifies the Administrative Agent that the Company wishes to amend any covenant in Article 5 to eliminate the effect of any change in generally accepted accounting principles on the operation of such covenant (or if the Administrative Agent notifies the Company that the Required Lenders wish to amend Article 5 for such purpose), then the Company’s compliance with such covenant shall be determined on the basis of generally accepted accounting principles in effect immediately before the relevant change in generally accepted accounting principles became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Company and the Required Lenders.

Section 1.03 . *Types of Loans and Borrowings*. The term “ **Borrowing** ” denotes the aggregation of Loans of one or more Lenders to be made to a single Borrower pursuant to Article 2 on the same date, all of which Loans are of the same Type and currency and, in the case of Euro-Currency Loans, have the same initial Interest Period. Identification of a Borrowing by Type (*e.g.* , a “Euro-Currency Borrowing”) indicates that such Borrowing is comprised of Loans of such Type.

ARTICLE 2 THE CREDITS

Section 2.01 . *Commitments to Lend*.

(a) *Committed Loans* . Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make loans (which may be denominated in Dollars or an Alternative Currency as the Borrower elects pursuant to Section 2.02) to the Borrowers pursuant to this Section 2.01(a) from time to time prior to its Termination Date in amounts such that (i) the Outstanding Amount of such Lender shall at no time exceed the amount of such Lender’s Commitment and (ii) the Total Outstanding Amount shall at no time exceed the aggregate amount of the Commitments. Within the foregoing limits, any Borrower may borrow under this Section, repay or, to the extent permitted by Section 2.10, prepay Loans and reborrow at any time prior to the Termination Date for any Lender under this Section 2.01.

(b) *Minimum Borrowings* . Each Borrowing under this Section 2.01 shall be in an aggregate Dollar Amount of not less than \$10,000,000 (except that any such Borrowing may be in the aggregate Dollar Amount of the available Commitments) and shall be made from the several Lenders ratably in proportion to their respective Commitments.

(c) *Extension of Commitments*. (i) Each Lender’s Commitment may be extended, if at the time no Event of Default has occurred and is continuing, in the manner set forth in this subsection (c), on a single occasion on any anniversary of the date hereof (the “ **Extension Date** ”) for a period of one year after the date on which the Commitment of such Lender would have been terminated. If the Company wishes to request an extension of each Lender’s Commitment, it shall give notice to that effect to the Administrative Agent not less than 45 days and not more than 90 days prior to the Extension Date then in effect, whereupon the Administrative Agent shall promptly notify each of the Lenders of such request. Each Lender will use its best efforts to respond to such request, whether affirmatively or negatively, as it may elect in its discretion, within 30 days of such request to the Administrative Agent. If any Lender shall not have responded affirmatively within such 30-day period, such Lender shall be deemed to have

rejected the Company's proposal to extend its Commitment, and only the Commitments of those Lenders which have responded affirmatively shall be extended, subject to receipt by the Administrative Agent of counterparts of an Extension Agreement in substantially the form of Exhibit I hereto (the "**Extension Agreement**") duly completed and signed by the Company, the Administrative Agent and all of the Lenders which have responded affirmatively. The Administrative Agent shall provide to the Company, no later than 10 days prior to the Extension Date for any such request, a list of the Lenders which have responded affirmatively. The Extension Agreement shall be executed and delivered no later than five days prior to the Extension Date, and no extension of the Commitments pursuant to this subsection (c) shall be legally binding on any party hereto unless and until such Extension Agreement is so executed and delivered by Lenders having at least 51% of the aggregate amount of the Commitments.

(ii) If any Lender rejects, or is deemed to have rejected, the Borrower's proposal to extend its Commitment (A) this Agreement shall terminate on the Termination Date with respect to such Lender, (B) the Borrower shall pay to such Lender on the Termination Date any amounts due and payable to such Lender on such date and (C) the Borrower may, if it so elects, designate a Person not theretofore a Lender and acceptable to the Administrative Agent to become a Lender, or agree with an existing Lender that such Lender's Commitment shall be increased, *provided* that the aggregate amount of the Commitments following any designation or agreement may not exceed the aggregate amount of the Commitments as in effect immediately prior to the relevant request. Upon execution and delivery by the Borrower and such replacement Lender or other Person of an instrument of assumption in form and amount satisfactory to the Administrative Agent and execution and delivery of the Extension Agreement pursuant to subsection (c)(i), such existing Lender shall have a Commitment as therein set forth or such other Person shall become a Lender with a Commitment as therein set forth and all the rights and obligations of a Lender with such a Commitment hereunder.

(iii) The Administrative Agent shall promptly notify the Lenders of the effectiveness of each extension of the Commitments pursuant to this subsection (c).

Section 2.02 . *Notice of Borrowing.* The Borrower shall give the Administrative Agent notice (a "**Notice of Borrowing**") (1) at its New York Office not later than 10:30 A.M. (New York City time) on (y) the date of each Base Rate Borrowing and (z) the third Euro-Dollar Business Day before each Euro-Dollar Borrowing and (2) at its New York Office and its London Office not later than 10:30 A.M. (London time) on the third Euro-Currency Business Day before each Borrowing of Alternative Currency Loans, specifying:

- (i) the date of such Borrowing, which shall be a Domestic Business Day in the case of a Base Rate Borrowing or a Euro-Currency Business Day in the case of a Euro-Currency Borrowing;
- (ii) the currency and aggregate amount (in such currency) of such Borrowing;
- (iii) in the case of a Borrowing of Dollar-Denominated Loans, whether such Loans are to be Base Rate Loans or Euro-Dollar Loans; and
- (iv) in the case of a Euro-Currency Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Section 2.03 . *Notice to Lenders; Funding of Loans.*

(a) Upon receipt of a Notice of Borrowing, the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's share of such Borrowing and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) On the date of each Borrowing, each Lender participating therein shall make available its ratable share of such Borrowing:

(A) if such Borrowing is to be made in Dollars, not later than 2:00 P.M. (New York City time), in Federal or other funds immediately available in New York City, to the Administrative Agent at its New York Office; or

(B) if such Borrowing is to be made in an Alternative Currency, in such Alternative Currency (in such funds as may then be customary for the settlement of international transactions in such Alternative Currency) to the account of the Administrative Agent at its London Office.

Unless the Administrative Agent determines that any applicable condition specified in Article 3 has not been satisfied or waived in accordance with Section 11.05, the Administrative Agent will make the funds so received from the Lenders available to the Borrower as directed by the Borrower.

(c) Unless the Administrative Agent shall have received at its New York Office notice from a Lender prior to the date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such

Borrowing in accordance with subsection (b) of this Section 2.03 and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and, if such Lender shall not have paid such amount to the Administrative Agent within two Domestic Business Days of the Administrative Agent's demand therefor, the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at the Federal Funds Rate (if such Borrowing is in Dollars) or the applicable London Interbank Offered Rate (if such Borrowing is in an Alternative Currency). If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement.

(d) The failure of any Lender to make any Loan to be made by it on the date specified therefor shall not relieve any other Lender of any obligation to make a Loan on such date.

Section 2.04 . *Notes.*

(a) Each Lender may, by notice to the Company and the Agent, request (i) that its Loans to any Borrower be evidenced by a single Note of such Borrower payable to the order of such Lender for the account of its Applicable Lending Office in an amount equal to the aggregate unpaid principal amount of such Lender's Loans to such Borrower or (ii) that its Loans of a particular Type or currency to any Borrower be evidenced by a separate Note of such Borrower in an amount equal to the aggregate unpaid principal amount of such Loans. Each such Note shall be in substantially the form of Exhibit A hereto with appropriate modifications to reflect the fact that it evidences solely Loans of the relevant Type or currency. Each reference in this Agreement to the "Notes" of such Lender shall be deemed to refer to and include any or all of such Notes, as the context may require.

(b) Each Lender shall record the date, amount, Type, currency and maturity of each Loan made by it and the date and amount of each payment of principal made with respect thereto, and may, if such Lender so elects in connection with any transfer or enforcement of its Note, endorse on the schedule forming a part thereof appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding; *provided* that the failure of any Lender to make any such recordation or endorsement shall not affect the obligations of any Borrower hereunder or under the Notes. Each Lender is hereby irrevocably authorized by the Borrowers so to endorse its Notes and to attach to

and make a part of any Note a continuation of any such schedule as and when required.

Section 2.05. *Maturity of Loans.* Each Loan of each Lender shall mature, and the principal amount thereof shall be due and payable (together with interest accrued thereon), on the Termination Date of such Lender.

Section 2.06 . *Interest Rates.*

(a) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due, at a rate per annum equal to the Base Rate for each such day. Such interest shall be payable at maturity, quarterly in arrears on each Quarterly Payment Date prior to maturity and, with respect to the principal amount of any Base Rate Loan converted to a Euro-Dollar Loan, on the date such amount is so converted. Any overdue principal of or interest on any Base Rate Loan shall bear interest, payable on demand, for each day from and including the date payment thereof was due to but excluding the date of actual payment, at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans for each such day.

(b) Each Euro-Currency Loan shall bear interest on the outstanding principal amount thereof, for each day during each Interest Period applicable thereto, at a rate per annum equal to the sum of the Euro-Currency Margin for such day plus the applicable London Interbank Offered Rate for such Interest Period. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof.

The “ **London Interbank Offered Rate** ” applicable to any Euro-Currency Loan for any Interest Period means the rate appearing on the Screen at approximately 11:00 A.M. (London time) on the Rate Fixing Date as the rate for deposits in Dollars or the relevant Alternative Currency with a maturity comparable to such Interest Period. If no rate appears on the Screen for the necessary currency and period, then the “London Interbank Offered Rate” with respect to such Euro-Currency Loan for such Interest Period shall be the rate at which deposits in that currency for value on the first day of such Interest Period with a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in the London interbank market at approximately 11:00 A.M. (London time) on the Rate Fixing Date.

The “ **Screen** ” means (i) with respect to Dollar-Denominated Loans, Telerate Page 3750 and (ii) with respect to Alternative Currency Loans, the Telerate page selected by the Administrative Agent that displays rates for inter-bank deposits in the appropriate Alternative Currency. The Administrative Agent may nominate an alternative source of screen rates if these pages are replaced by

others which display rates for interbank deposits offered by leading banks in London.

“ **Rate Fixing Date** ” means the second Euro-Currency Business Day before the first day of such Interest Period.

(c) Any overdue principal of or interest on any Euro-Currency Loan shall bear interest, payable on demand, for each day from and including the date payment thereof was due to but excluding the date of actual payment, at a rate per annum equal to the sum of 2% plus the higher of (i) the sum of the Euro-Currency Margin for such day plus the London Interbank Offered Rate applicable to such Loan on the day before such payment was due and (ii) the Euro-Currency Margin for such day plus the quotient obtained (rounded upward, if necessary, to the next higher 1/100 of 1%) by dividing (x) the average (rounded upward, if necessary, to the next higher 1/16 of 1%) of the respective rates per annum at which one day (or, if such amount due remains unpaid more than three Euro-Currency Business Days, then for such other period of time not longer than six months as the Administrative Agent may select) deposits in the relevant currency in an amount approximately equal to such overdue payment are offered by the principal London office of the Administrative Agent in the London interbank market for the applicable period determined as provided above by (y) 1.00 minus the Euro-Currency Reserve Percentage.

(d) The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07 . *Fees.* (a) The Company shall pay to the Administrative Agent for the account of the Lenders ratably a facility fee in Dollars at the Facility Fee Rate (determined daily in accordance with the Pricing Schedule) on the daily aggregate amount of the Credit Exposures. Such facility fee shall accrue from and including the Effective Date to but excluding the date on which the Credit Exposures are reduced to zero.

(b) The Borrower shall pay to the Administrative Agent (i) for the account of the Lenders ratably a letter of credit fee in Dollars accruing daily on the aggregate Dollar Amount of all outstanding Letters of Credit at the Letter of Credit Fee Rate (determined daily in accordance with the Pricing Schedule) and (ii) for the account of each Issuing Lender a letter of credit fronting fee accruing daily on the aggregate Dollar Amount of all Letters of Credit issued by such Issuing Lender at a rate per annum mutually agreed from time to time by the Company and such Issuing Lender.

(c) Accrued fees under this Section shall be payable quarterly in arrears on each Quarterly Date and on the date of termination of the Commitments in their entirety (and, if later, the date the Credit Exposures are reduced to zero).

Section 2.08. *Optional Termination or Reduction of Commitments.* The Company may, upon at least three Domestic Business Days' notice to the Administrative Agent at its New York Office, (i) terminate the Commitments at any time, if no Loans or Letter of Credit Liabilities are outstanding at such time or (ii) ratably reduce from time to time by an aggregate amount of \$10,000,000 or any larger multiple thereof, the aggregate amount of the Commitments in excess of the Total Outstanding Amount. Promptly after receiving a notice pursuant to this Section, the Administrative Agent shall notify each Lender of the contents thereof.

Section 2.09. *Mandatory Termination of Commitments.* The Commitment of each Lender shall terminate on its Termination Date.

Section 2.10. *Optional Prepayments.*

(a) Subject in the case of Euro-Currency Loans to Section 2.12, the Borrower may upon notice to the Administrative Agent (i) at its New York Office not later than 10:30 A.M. (New York City time) on the Domestic Business Day preceding the date of prepayment of any Group of Base Rate Loans or the third Euro-Dollar Business Day before the date of prepayment of any Group of Euro-Dollar Loans, prepay any such Group or (ii) at its London Office not later than 11:00 A.M. (London time) on the third Euro-Currency Business Day before the date of prepayment, prepay any Group of Alternative Currency Loans, in each case in whole at any time, or from time to time in part in Dollar Amounts aggregating not less than \$10,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to but not including the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Lenders included in such Group of Loans.

(b) Upon receipt of a notice of prepayment pursuant to this Section, the Administrative Agent shall promptly notify each Lender of the contents thereof and of such Lender's ratable share of such prepayment and once notice is so given to the Lenders, the Borrower's notice of prepayment shall not thereafter be revocable by the Borrower.

Section 2.11. *General Provisions as to Payments.*

(a) The Borrowers shall make each payment of principal of, and interest on, the Dollar-Denominated Loans, of Letter of Credit Liabilities denominated in Dollars and of fees hereunder not later than 2:00 P.M. (New York City time) on the date when due, in Federal or other funds immediately available in New York

City, without set-off, counterclaim or other deduction, to the Administrative Agent at its New York Office. The Borrowers shall make each payment of principal of, and interest on, the Alternative Currency Loans and of Letter of Credit Liabilities denominated in an Alternative Currency in the relevant Alternative Currency in such funds as may then be customary for the settlement of international transactions in such Alternative Currency, without set-off, counterclaim or other deduction, to the Administrative Agent at its London Office. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the respective accounts of the Lenders. Whenever any payment of principal of, or interest on, the Base Rate Loans or of fees shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. Whenever any payment of principal of, or interest on, the Euro-Currency Loans shall be due on a day which is not a Euro-Currency Business Day, the date for payment thereof shall be extended to the next succeeding Euro-Currency Business Day unless such Euro-Currency Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Euro-Currency Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at (i) the Federal Funds Rate (if such amount was distributed in Dollars) or (ii) the rate per annum at which one-day deposits in the relevant currency are offered by the principal London office of the Administrative Agent in the London interbank market for such day (if such amount was distributed in an Alternative Currency).

Section 2.12 . *Funding Losses*. If the Borrower makes any payment of principal with respect to any Euro-Currency Loan or any Euro-Dollar Loan is converted to a Base Rate Loan (pursuant to Article 2, 6 or 8 or otherwise) on any day other than the last day of an Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, prepay, convert or continue any Euro-Currency Loans after notice has

been given to any Lender in accordance with Section 2.03(a), 2.10(b), or 2.15, the Borrower shall reimburse each Lender within 15 days after demand for any resulting loss or expense reasonably incurred by it (or by an existing or prospective Participant in the related Loan) in obtaining, liquidating or employing deposits or other funds from third parties, but excluding loss of margin for the period after any such payment or conversion or failure to borrow, prepay, convert or continue; *provided* that such Lender shall have delivered to the Borrower a certificate specifying in reasonable detail the calculation of, and the reasons for, the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.13. *Computation of Interest and Fees.* Interest on Euro-Currency Loans denominated in Sterling and interest calculated on the basis of the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed (including the first day but excluding the last day). All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14. *Regulation D Compensation.* Each Lender may require the Borrower to pay, contemporaneously with each payment of interest on the Euro-Currency Loans, additional interest on the related Euro-Currency Loan of such Lender at a rate per annum determined by such Lender up to but not exceeding the excess of (i) (A) the applicable London Interbank Offered Rate divided by (B) one *minus* the Euro-Currency Reserve Percentage over (ii) the applicable London Interbank Offered Rate. Any Lender wishing to require payment of such additional interest (x) shall so notify the Borrower and the Administrative Agent, in which case such additional interest on the Euro-Currency Loans of such Lender shall be payable to such Lender at the place indicated in such notice with respect to each Interest Period commencing at least three Euro-Currency Business Days after the giving of such notice, and (y) shall notify the Borrower at least five Euro-Currency Business Days prior to each date on which interest is payable on the Euro-Currency Loans of the amount then due it under this Section.

Section 2.15. *Method of Electing Interest Rates.*

(a) The Dollar-Denominated Loans included in each Borrowing shall initially be of the Type specified by the Borrower in the applicable Notice of Borrowing. Thereafter, the Borrower may from time to time elect to change or continue the Type of each such Group of Loans (subject to subsection 2.15(d) of this Section and the provisions of Article 8), as follows:

(i) if such Loans are Base Rate Loans, the Borrower may elect to convert such Loans to Euro-Dollar Loans as of any Euro-Dollar Business Day; and

(ii) if such Loans are Euro-Dollar Loans, the Borrower may elect to convert such Loans to Base Rate Loans or elect to continue such Loans as Euro-Dollar Loans for an additional Interest Period, subject to Section 2.12 if any such conversion is effective on any day other than the last day of an Interest Period applicable to such Loans.

Each such election shall be made by delivering a notice (a “ **Notice of Interest Rate Election** ”) to the Administrative Agent at its New York Office not later than 10:30 A.M. (New York City time) on the third Euro-Dollar Business Day before the conversion or continuation selected in such notice is to be effective. A Notice of Interest Rate Election may, if it so specifies, apply to only a portion of the aggregate principal amount of the relevant Group of Loans; *provided* that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such Notice applies, and the remaining portion to which it does not apply, are each at least \$10,000,000 (unless such portion is comprised of Base Rate Loans). If no such notice is timely received before the end of an Interest Period for any Group of Euro-Dollar Loans, the Borrower shall be deemed to have elected that such Group of Loans be converted to Base Rate Loans at the end of such Interest Period.

(b) Each Notice of Interest Rate Election shall specify:

(i) the Group of Loans (or portion thereof) to which such notice applies;

(ii) the date on which the conversion or continuation selected in such notice is to be effective, which shall comply with the applicable clause of Section 2.15(a) above;

(iii) if the Loans comprising such Group are to be converted, the new Type of Loans and, if the Loans resulting from such conversion are to be Euro-Dollar Loans, the duration of the next succeeding Interest Period applicable thereto; and

(iv) if such Loans are to be continued as Euro-Dollar Loans for an additional Interest Period, the duration of such additional Interest Period.

Each Interest Period specified in a Notice of Interest Rate Election shall comply with the provisions of the definition of Interest Period.

(c) Promptly after receiving a Notice of Interest Rate Election from the Borrower pursuant to subsection (a) above, the Administrative Agent shall notify each Lender of the contents thereof and such notice shall not thereafter be revocable by the Borrower.

(d) The Borrower shall not be entitled to elect to convert any Loans to, or continue any Loans for an additional Interest Period as, Euro-Dollar Loans if (i) the aggregate Dollar Amount of any Group of Euro-Dollar Loans created or continued as a result of such election would be less than \$10,000,000 or (ii) a Default shall have occurred and be continuing when the Borrower delivers notice of such election to the Administrative Agent.

(e) The initial Interest Period for each Borrowing of Alternative Currency Loans shall be specified by the Borrower in the applicable Notice of Borrowing. The Borrower may specify the duration of each subsequent Interest Period applicable to such Group of Loans by delivering to the Administrative Agent at its London Office not later than 11:00 A.M. (London time) on the third Euro-Currency Business Day before the end of the immediately preceding Interest Period, a notice specifying the Group of Loans to which such notice applies and the duration of such subsequent Interest Period (which shall comply with the provisions of the definition of Interest Period). Such notice may, if it so specifies, apply to only a portion of the aggregate principal amount of the relevant Group of Loans; *provided* that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the Dollar Amounts of the portion to which such notice applies, and the remaining portion to which it does not apply, are each at least \$10,000,000. If no such notice is timely received by the Administrative Agent before the end of any applicable Interest Period, the Borrower shall be deemed to have elected that the subsequent Interest Period for such Group of Loans shall have a duration of one month (subject to the provisions of the definition of Interest Period).

Section 2.16 . *Determining Dollar Amounts; Related Mandatory Prepayments.*

(a) The Administrative Agent shall determine the Dollar Amount of each Alternative Currency Loan as of the first day of each Interest Period applicable thereto and, in the case of any such Interest Period of more than three months, at three-month intervals after the first day thereof, and shall promptly notify the Borrower and the Lenders of each Dollar Amount so determined by it. Each such determination shall be based on the Spot Rate (i) on the date of the related Notice of Borrowing for purposes of the initial such determination for any Alternative Currency Loan and (ii) on the fourth Euro-Currency Business Day prior to the date as of which such Dollar Amount is to be determined, for purposes of any subsequent determination.

(b) The Administrative Agent shall determine the Dollar Amount of the Letter of Credit Liabilities related to each Letter of Credit as of the date of issuance thereof and at three-month intervals after the date of issuance thereof. Each such determination shall be based on the Spot Rate (i) on the date of the related Notice of Issuance, in the case of the initial determination in respect of any

Letter of Credit and (ii) on the fourth Euro-Currency Business Day prior to the date as of which such Dollar Amount is to be determined, in the case of any subsequent determination with respect to an outstanding Letter of Credit.

(c) Each determination of a Dollar Amount pursuant to this Section shall be conclusive in the absence of manifest error. If after giving effect to any such determination of a Dollar Amount, the Total Outstanding Amount exceeds the aggregate amount of the Commitments, the Borrowers shall within five Euro-Currency Business Days prepay outstanding Loans (as selected by the Company and notified to the Lenders through the Administrative Agent not less than three Euro-Currency Business Days prior to the date of prepayment) or take other action to the extent necessary to eliminate any such excess.

Section 2.17 . Additional Reserve Costs.

(a) If and so long as any Lender is required to make special deposits with the Bank of England, to maintain reserve asset ratios or to pay fees, in each case in respect of such Lender's Euro-Currency Loans in any Alternative Currency, such Lender may require the Borrower to pay, contemporaneously with each payment of interest on each of such Loans, additional interest on such Loan at a rate per annum equal to the Mandatory Costs Rate calculated in accordance with the formula and in the manner set forth in Exhibit H hereto.

(b) If and so long as any Lender is required to comply with reserve assets, liquidity, cash margin or other requirements of any monetary or other authority (including any such requirement imposed by the European Central Bank or the European System of Central Banks, but excluding requirements reflected in an applicable Euro-Currency Reserve Percentage or Mandatory Costs Rate) in respect of any of such Lender's Euro-Currency Loans in any Alternative Currency, such Lender may require the Borrower to pay, contemporaneously with each payment of interest on each of such Lender's Euro-Currency Loans subject to such requirements, additional interest on such Loan at a rate per annum specified by such Lender to be the cost to such Lender of complying with such requirements in relation to such Loan.

(c) Any additional interest owed pursuant to subsection (a) or (b) above shall be determined by the relevant Lender, which determination shall be conclusive in the absence of manifest error, and notified to the Borrower (with a copy to the Administrative Agent) at least five Euro-Currency Business Days before each date on which interest is payable for the relevant Loan, and such additional interest so notified to the Borrower by such Lender shall be payable to the Administrative Agent for the account of such Lender on each date on which interest is payable for such Loan.

Section 2.18. *Judgment Currency*. If, under any applicable law and whether pursuant to a judgment being made or registered against any Borrower or for any other reason, any payment under or in connection with this Agreement is made or satisfied in a currency (the “**Other Currency**”) other than that in which the relevant payment is due (the “**Required Currency**”) then, to the extent that the payment (when converted into the Required Currency at the rate of exchange on the date of payment or, if it is not practicable for the party entitled thereto (the “**Payee**”) to purchase the Required Currency with the Other Currency on the date of payment, at the rate of exchange as soon thereafter as it is practicable for it to do so) actually received by the Payee falls short of the amount due under the terms of this Agreement, such Borrower shall, to the extent permitted by law, as a separate and independent obligation, indemnify and hold harmless the Payee against the amount of such short-fall. For the purpose of this Section, “**rate of exchange**” means the rate at which the Payee is able on the relevant date to purchase the Required Currency with the Other Currency and shall take into account any premium and other costs of exchange.

Section 2.19 . *Letters of Credit*. (a) Subject to the terms and conditions hereof, each Issuing Lender agrees to issue Letters of Credit hereunder denominated in Dollars or in an Alternative Currency from time to time upon the request of any Borrower; *provided* that, immediately after each Letter of Credit is issued (i) the Total Outstanding Amount shall not exceed the aggregate amount of the Commitments and (ii) the aggregate Dollar Amount of Letter of Credit Liabilities shall not exceed \$200,000,000. Upon the date of issuance by the Issuing Lender of a Letter of Credit, the Issuing Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from the Issuing Lender, a participation in such Letter of Credit and the related Letter of Credit Liabilities in the proportion their respective Commitments bear to the aggregate Commitments.

(b) The Borrower shall give the Issuing Lender notice at least five Euro-Currency Business Days prior to the requested issuance of a Letter of Credit specifying the date such Letter of Credit is to be issued, and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby (such notice, including any such notice given in connection with the extension , renewal or amendment of a Letter of Credit, a “**Notice of Issuance**”). Upon receipt of a Notice of Issuance, the Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender of the contents thereof and of the amount of such Lender’s participation in such Letter of Credit. The issuance by the Issuing Lender of each Letter of Credit shall, in addition to the conditions precedent set forth in Article 3, be subject to the conditions precedent that (i) such Letter of Credit shall be in such form and contain such terms as shall be satisfactory to the Issuing Lender and the Borrower

shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as the Issuing Lender shall have reasonably requested and (ii) no Stop Issuance Notice shall be in effect. The Borrower shall also pay to the Issuing Lender for its own account issuance, drawing, amendment and extension charges in the amounts and at the times as agreed between the Borrower and the Issuing Lender.

(c) The extension, renewal or amendment of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and if any Letter of Credit contains a provision pursuant to which it is deemed to be extended unless notice of termination is given by the Issuing Lender, the Issuing Lender shall timely give such notice of termination unless it has theretofore timely received a Notice of Issuance and the other conditions to issuance of a Letter of Credit have also theretofore been met with respect to such extension. Each Letter of Credit shall expire at or before the close of business on the date that is one year after such Letter of Credit is issued (or, in the case of any renewal or extension thereof, one year after such renewal or extension); *provided* that (i) a Letter of Credit may contain a provision pursuant to which it is deemed to be extended on an annual basis unless notice of termination is given by the Issuing Bank and (ii) in no event will a Letter of Credit expire (including pursuant to a renewal or extension thereof) on a date later than the LC Termination Date.

(d) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the Issuing Lender shall notify the Administrative Agent and the Administrative Agent shall promptly notify the Borrower and each other Lender as to the amount to be paid as a result of such demand or drawing and the payment date. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the Issuing Lender for any amounts paid by the Issuing Lender upon any drawing under any Letter of Credit in the currency of such payment (a “ **Reimbursement Obligation** ”) without presentment, demand, protest or other formalities of any kind. All such amounts paid by the Issuing Lender and remaining unpaid by the Borrower shall bear interest, payable on demand, for each day from the date of payment under the Letter of Credit until paid at a rate per annum equal to the sum of 2% plus (i) if such amount is denominated in Dollars, the Base Rate for such day and (ii) if such amount is denominated in an Alternative Currency, the sum of the Euro-Currency Margin plus the rate per annum at which one-day deposits in the relevant currency are offered by the principal London office of the Administrative Agent in the London interbank market for such day. In addition, each Lender will pay to the Administrative Agent, for the account of the Issuing Lender, immediately upon the Issuing Lender’s demand at any time during the period commencing after such drawing until reimbursement therefor in full by the Borrower, an amount equal to such Lender’s ratable share of such drawing (in proportion to its participation therein), together with interest on such amount for each day from the date of the

Issuing Lender's demand for such payment (or, if such demand is made after 12:00 Noon (New York City time) on such date, from the next succeeding Domestic Business Day) to the date of payment by such Lender of such amount at a rate of interest per annum equal to the (i) if such amount is denominated in Dollars, the Federal Funds Rate and (ii) if such amount is denominated in an Alternative Currency, the rate per annum at which one-day deposits in the relevant currency are offered by the principal London office of the Administrative Agent in the London interbank market for such day. The Issuing Lender will pay to each Lender ratably all amounts received from the Borrower for application in payment of its reimbursement obligations in respect of any Letter of Credit, but only to the extent such Lender has made payment to the Issuing Lender in respect of such Letter of Credit pursuant hereto.

(e) The obligations of the Borrower and each Lender under subsection 2.19(d) above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including without limitation the following circumstances:

(i) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;

(ii) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto, provided by any party affected thereby;

(iii) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);

(iv) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), the Lenders (including the Issuing Lender) or any other Person, whether in connection with this Agreement or the Letter of Credit or any document related hereto or thereto or any unrelated transaction;

(v) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(vi) payment under a Letter of Credit to the beneficiary of such Letter of Credit against presentation to the Issuing Lender of a draft or certificate that does not comply with the terms of the Letter of Credit;

(vii) any termination of the Commitments prior to, on or after the Payment Date for any Letter of Credit, whether at the scheduled termination thereof, by operation of Article 6 or otherwise; or

(viii) any other act or omission to act or delay of any kind by any Lender (including the Issuing Lender), the Administrative Agent or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (viii), constitute a legal or equitable discharge of the Borrower's or the Lender's obligations hereunder.

(f) The Borrower hereby indemnifies and holds harmless each Lender (including the Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur (including, without limitation, any claims, damages, losses, liabilities, costs or expenses which the Issuing Lender may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights the Borrower may have against such defaulting Lender)), and none of the Lenders (including the Issuing Lender) nor the Administrative Agent nor any of their officers or directors or employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including without limitation any of the circumstances enumerated in subsection 2.19(e) above, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit, and (iii) any consequences arising from causes beyond the control of the Issuing Lender, including without limitation any government acts, or any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; *provided* that the Borrower shall not be required to indemnify the Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim for direct (but not consequential) damage suffered by it, to the extent found by a court of competent jurisdiction to have been caused by (x) the willful misconduct or gross negligence of the Issuing Lender in determining whether a request presented under any Letter of Credit complied with the terms of such Letter of Credit or (y) the Issuing Lender's failure to pay under any Letter of Credit after the presentation to it of a request strictly complying with the terms and conditions of the Letter of Credit. Nothing in this subsection 2.19(f) is intended to limit the obligations of the Borrower under any other provision of this Agreement. To the

extent the Borrower does not indemnify the Issuing Lender as required by this subsection, the Lenders agree to do so ratably in accordance with their Commitments.

(g) If the Required Lenders reasonably determine at any time that the conditions set forth in Section 3.02 would not be satisfied in respect of a Borrowing at such time, then the Required Lenders may request that the Administrative Agent issue a “ **Stop Issuance Notice** ”, and the Administrative Agent shall issue such notice to each Issuing Lender. Such Stop Issuance Notice shall be withdrawn upon a determination by the Required Lenders that the circumstances giving rise thereto no longer exist. No Letter of Credit shall be issued while a Stop Issuance Notice is in effect. The Required Lenders may request issuance of a Stop Issuance Notice only if there is a reasonable basis therefor, and shall consider reasonably and in good faith a request from the Company for withdrawal of the same on the basis that the conditions in Section 3.02 are satisfied; *provided* that the Administrative Agent and the Issuing Lenders may and shall conclusively rely upon any Stop Issuance Notice while it remains in effect.

Section 2.20 . *Increased Commitments, Additional Lenders.* (a) From time to time the Company may, upon at least five days’ notice to the Administrative Agent (which shall promptly provide a copy of such notice to the Lenders), increase the aggregate amount of the Commitments by an amount not less than \$10,000,000 (the amount of any such increase, the “ **Increased Commitments** ”).

(b) To effect such an increase, the Company may designate one or more of the existing Lenders or other financial institutions acceptable to the Administrative Agent and each Issuing Lender which at the time agree to (i) in the case of any such Person that is an existing Lender, increase its Commitment and (ii) in the case of any other such Person (an “ **Additional Lender** ”), become a party to this Agreement with a Commitment of not less than \$10,000,000.

(c) Any increase in the Commitments pursuant to this Section 2.20 shall be subject to satisfaction of the following conditions:

(i) before and after giving effect to such increase, all representations and warranties contained in Article 4 shall be true;

(ii) at the time of such increase, no Default shall have occurred and be continuing or would result from such increase; and

(iii) after giving effect to such increase, the aggregate amount of all increases in Commitments made pursuant to this Section 2.20 shall not exceed \$500,000,000.

(d) An increase in the aggregate amount of the Commitments pursuant to this Section 2.20 shall become effective upon the receipt by the Administrative Agent of (i) an agreement in form and substance satisfactory to the Administrative Agent signed by the Company, by each Additional Lender and by each other Lender whose Commitment is to be increased, setting forth the new Commitments of such Lenders and setting forth the agreement of each Additional Lender to become a party to this Agreement and to be bound by all the terms and provisions hereof, (ii) such evidence of appropriate legal authorization on the part of the Company with respect to the Increased Commitments and such opinions of counsel for the Company with respect to the Increased Commitments as the Administrative Agent may reasonably request and (iii) such evidence of the satisfaction of the conditions set forth in subsection (c) above as the Administrative Agent may reasonably request.

(e) Upon any increase in the aggregate amount of the Commitments pursuant to this Section 2.20, (i) the respective Letter of Credit Liabilities of the Lenders shall be redetermined as of the effective date of such increase in proportion to their respective Commitments after giving effect to such increase and (ii) within five Domestic Business Days, in the case of Base Rate Loans then outstanding, and at the end of the then current Interest Period with respect thereto, in the case of Euro-Currency Loans then outstanding, the Borrower shall prepay or repay such Loans in their entirety and, to the extent the Borrower elects to do so and subject to the conditions specified in Article 3, the Borrower shall reborrow Loans from the Lenders in proportion to their respective Commitments after giving effect to such increase, until such time as all outstanding Loans are held by the Lenders in such proportion.

ARTICLE 3 CONDITIONS

Section 3.01 . *Effectiveness*. This Amended Agreement shall become effective on the date that each of the following conditions shall have been satisfied (or waived in accordance with Section 11.05):

(a) receipt by the Administrative Agent of counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic or other written confirmation from such party of execution of a counterpart hereof by such party);

(b) receipt by the Administrative Agent of an opinion of [Jerome D. Okarma], general counsel for the Company, substantially in the form of Exhibit B hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Lenders may reasonably request;

(c) receipt by the Administrative Agent of an opinion of Davis Polk & Wardwell, special counsel for the Administrative Agent, substantially in the form of Exhibit C hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Lenders may reasonably request;

(d) receipt by the Administrative Agent of all documents the Administrative Agent may reasonably request relating to the existence of the Company, the legal authority for and the validity of this Amended Agreement and the Notes, and any other matters relevant hereto, all in form and substance satisfactory to the Administrative Agent; and

(e) arrangements satisfactory to the Administrative Agent shall have been made for the payment of all principal of any loans outstanding under, and all accrued interest and fees under, the Existing Agreements;

provided that this Amended Agreement shall not become effective or be binding on any party hereto unless all of the foregoing conditions are satisfied not later than December 8, 2006. On the Effective Date, (i) the Existing Agreement shall be automatically amended and restated in its entirety to read as this Amended Agreement, (ii) each Person listed on the signature pages hereof which is not a party to the Existing Agreement shall become a Lender party to this Agreement, (iii) the Commitment of each Lender shall be the amount set forth opposite the name of such Lender in the Commitment Schedule and (iv) any Lender party to the Existing Agreement but not listed in the Commitment Schedule (a “**Departing Lender**”) shall cease to be a Lender party to this Agreement and all accrued fees and other amounts payable under the Existing Agreement for the account of such Departing Lender shall be due and payable on the Effective Date; *provided* that the provisions of Sections 8.03, 8.04 and 11.03 of the Existing Agreement shall continue to inure to the benefit of such Departing Lender. If any Letters of Credit are outstanding on the Effective Date, the participations therein of the Departing Lenders shall terminate and the participations of the Lenders therein shall be redetermined on the basis of their Commitments under this Amended Agreement as if issued on the Effective Date. The Administrative Agent shall promptly notify the Company, each Lender and each other party to the Existing Agreements of the Effective Date, and such notice shall be conclusive and binding on all parties.

Section 3.02 . *Borrowings and Issuances of Letters of Credit*. The obligation of any Lender to make a Loan on the occasion of any Borrowing and the obligation of the Issuing Lender to issue (or amend, renew or extend the term of) any Letter of Credit is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.02 or receipt by the Issuing Lender of a Notice of Issuance as required by Section 2.19(b), as the case may be;

(b) the fact that, immediately after such Borrowing or issuance of such Letter of Credit (i) the Total Outstanding Amount will not exceed the aggregate amount of the Commitments and (ii) the aggregate Dollar Amount of all Letter of Credit Liabilities will not exceed \$200,000,000;

(c) the fact that, immediately before and after such Borrowing or issuance of such Letter of Credit, no Default shall have occurred and be continuing; and

(d) the fact that the representations and warranties of the Company and, if other than the Company, the Borrower contained in this Agreement (except the representations and warranties set forth in Sections 4.04(c), 4.05 and 4.07, in each case as to any matter which has theretofore been disclosed in writing by the Company to the Lenders) shall be true on and as of the date of such Borrowing or issuance.

Each Borrowing and issuance of a Letter of Credit hereunder shall be deemed to be a representation and warranty by the Borrower (and by the Company if it is not the Borrower) on the date of such Borrowing as to the facts specified in clauses 3.02(b), 3.02(c) and 3.02(d).

Section 3.03 . *First Borrowing by Each Eligible Subsidiary.*

(a) The obligation of each Lender to make a Loan, and the obligation of an Issuing Lender to issue a Letter of Credit, on the occasion of the first Borrowing by or issuance of a Letter of Credit for the account of each Eligible Subsidiary is subject to the receipt by the Administrative Agent of the following documents:

(i) an opinion of counsel for such Eligible Subsidiary acceptable to the Administrative Agent, which may be in-house counsel unless the Administrative Agent otherwise reasonably determines, substantially in the form of Exhibit F hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Lenders may reasonably request; and

(ii) all documents which it may reasonably request relating to the existence of such Eligible Subsidiary, the legal authority for and the validity of the Election to Participate of such Eligible Subsidiary, this Agreement and the Notes of such Eligible Subsidiary, and any other

matters relevant thereto, all in form and substance satisfactory to the Administrative Agent.

(b) Following the giving of any Election to Participate, if the designation of such Eligible Subsidiary obligates the Administrative Agent or any Lender to comply with “know your customer” or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall, promptly upon the request of the Administrative Agent or any Lender, supply such documentation and other evidence as is reasonably requested by the Administrative Agent or any Lender in order for the Administrative Agent or such Lender to carry out and be satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants that:

Section 4.01 . *Legal Existence and Power.* The Company is an entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

Section 4.02. *Legal and Governmental Authorization; No Contravention.* The execution, delivery and performance by the Company of this Agreement and its Notes are within the Company’s legal powers, have been duly authorized by all necessary legal action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the organizational documents or by-laws of the Company or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Company or result in the creation or imposition of any Lien on any asset of the Company or any of its Consolidated Subsidiaries.

Section 4.03. *Binding Effect.* This Agreement constitutes a valid and binding agreement of the Company, and its Notes, if and when executed and delivered in accordance with this Agreement, will constitute valid and binding obligations of the Company.

Section 4.04. *Financial Information.*

(a) The consolidated statement of financial position of the Company and its Consolidated Subsidiaries as of September 30, 2005 and the related consolidated statements of income, cash flows and shareholders' equity for the fiscal year then ended, reported on by PricewaterhouseCoopers LLP and set forth in the Company's 2005 Form 10-K, a copy of which has been delivered to each of the Lenders, fairly present, in conformity with generally accepted accounting principles, the consolidated financial position of the Company and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) The unaudited consolidated statement of financial position of the Company and its Consolidated Subsidiaries as of June 30, 2006 and the related unaudited consolidated statements of income, cash flows and shareholders' equity for the nine months then ended, set forth in the Company's quarterly report for the fiscal quarter ended June 30, 2006 as filed with the Securities and Exchange Commission on Form 10-Q, a copy of which has been delivered to each of the Lenders, fairly present, in conformity with generally accepted accounting principles applied on a basis consistent with the financial statements referred to in subsection (a) of this Section 4.04, the consolidated financial position of the Company and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such nine month period (subject to normal year-end adjustments).

(c) Since September 30, 2005 there has been no material adverse change in the business, financial position, results of operations or prospects of the Company and its Consolidated Subsidiaries, considered as a whole.

Section 4.05. *Litigation.* Except as set forth in the Company's reports on Form 8-K, Form 10-K and Form 10-Q filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, copies of which have been provided to the Lenders, there is no action, suit or proceeding pending against, or to the knowledge of the Company threatened against or affecting, the Company or any of its Consolidated Subsidiaries before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which could materially adversely affect the business, consolidated financial position or consolidated results of operations of the Company and its Consolidated Subsidiaries, considered as a whole, or which in any manner draws into question the validity of this Agreement or the Notes.

Section 4.06. *Compliance with ERISA.* Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Plan and is in compliance in all material respects with the presently applicable provisions of

ERISA and the Internal Revenue Code with respect to each Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Plan, (ii) failed to make any contribution or payment to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement, or made any amendment to any Plan or Benefit Arrangement, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 4.07. *Environmental Matters.* In the course of its business, the Company reviews the effect of Environmental Laws on the business, operations and properties of the Company and its Subsidiaries, in the course of which it attempts to identify and evaluate associated liabilities and costs (“ **Environmental Liabilities** ”) (including, without limitation, any capital or operating expenditures required for clean-up or closure of properties presently owned, any capital or operating expenditures required to achieve or maintain compliance with environmental protection standards imposed by law or as a condition of any license, permit or contract, any related constraints on operating activities, including any periodic or permanent shutdown of any facility or reduction in the level of or change in the nature of operations conducted thereat and any actual or potential liabilities to third parties, including employees, and any related costs and expenses). Except as set forth in Schedule I hereto, on the basis of this review, the Company has reasonably concluded that its Environmental Liabilities are unlikely to have a material adverse effect on the business, financial condition, results of operations or prospects of the Company and its Consolidated Subsidiaries, considered as a whole.

Section 4.08. *Taxes.* United States Federal income tax returns of the Company and its Consolidated Subsidiaries have been examined and closed through the fiscal year ended September 30, 2001. The Company and its Consolidated Subsidiaries have filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Company or any Consolidated Subsidiary. The charges, accruals and reserves on the books of the Company and its Consolidated Subsidiaries in respect of taxes or other governmental charges are, in the opinion of the Company, adequate.

Section 4.09. *Subsidiaries.* Each of the Company’s Consolidated Subsidiaries is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and has all legal powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted, except those instances where failure to hold

such powers, licenses, authorizations, consents or approvals would not be expected to have a material adverse effect on the Company.

Section 4.10. *Not an Investment Company.* The Company is not an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

Section 4.11. *Full Disclosure.* All information heretofore furnished in writing by the Company to the Administrative Agent or any Lender for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all such information hereafter furnished in writing by the Company to the Administrative Agent or any Lender will be, true and accurate in all material respects on the date as of which such information is stated or certified. The Company has disclosed to the Lenders in writing any and all facts which materially and adversely affect the business, operations or financial condition of the Company and its Consolidated Subsidiaries, taken as a whole, or the ability of the Company to perform its obligations under this Agreement.

ARTICLE 5 COVENANTS

The Company agrees that, so long as any Lender has any Commitment hereunder or any principal, interest or fees payable hereunder remain unpaid:

Section 5.01. *Information.* The Company will deliver to each of the Lenders:

(a) as soon as available and in any event within 95 days after the end of each fiscal year of the Company, a consolidated statement of financial position of the Company and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income, cash flow and shareholders’ or members’ equity for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all set forth in accordance with generally accepted accounting principles and reported on in a manner acceptable to the Securities and Exchange Commission by PricewaterhouseCoopers LLP or other independent public accountants of nationally recognized standing;

(b) as soon as available and in any event within 50 days after the end of each of the first three quarters of each fiscal year of the Company, a consolidated statement of financial position of the Company and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income, cash flow and shareholders’ or members’ equity for such quarter and for the portion of the Company’s fiscal year ended at the end of such quarter, setting forth in each case in comparative form the figures for the corresponding quarter

and the corresponding portion of the Company's previous fiscal year, all certified (subject to normal year-end adjustments) as to fairness of presentation, generally accepted accounting principles and consistency by the chief financial officer or the chief accounting officer of the Company;

(c) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a certificate of the chief financial officer or the chief accounting officer of the Company (i) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Company is taking or proposes to take with respect thereto and (ii) setting forth in reasonable detail the calculations required to establish whether the Company was in compliance with the requirements of Sections 5.07 to 5.08, inclusive, on the date of such financial statements;

(d) as soon as practicable under the circumstances, after any officer of the Company obtains knowledge of any Default, if such Default is then continuing, a certificate of the chief financial officer or the chief accounting officer of the Company setting forth the details thereof and the action which the Company is taking or proposes to take with respect thereto;

(e) promptly upon the mailing thereof to the shareholders of the Company generally, copies of all financial statements, reports and proxy statements so mailed;

(f) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which the Company shall have filed with the Securities and Exchange Commission;

(g) if and when any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and

other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement or makes any amendment to any Plan or Benefit Arrangement which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a certificate of the chief financial officer or the chief accounting officer of the Company setting forth details as to such occurrence and action, if any, which the Company or applicable member of the ERISA Group is required or proposes to take; and

(h) from time to time such additional information regarding the financial position or business of the Company and its Consolidated Subsidiaries as the Administrative Agent, at the request of any Lender, may reasonably request.

Information required to be delivered pursuant to subsections (a), (b), (e) or (f) above shall be deemed to have been delivered on the date on which the Company provides notice to the Lenders that such information has been posted on the Company's website on the Internet at the website address www.jci.com, at sec.gov/edaux/searches.htm or at another website identified in such notice and accessible by the Lenders without charge; *provided* that (i) such notice may be included in a certificate delivered pursuant to subsection 5.01(c) and (ii) the Company shall deliver paper copies of the information referred to in subsections (a), (b), (e) or (f) to any Lender which requests such delivery.

Section 5.02. *Payment of Obligations.* Each Borrower will pay and discharge, and will cause each of its Consolidated Subsidiaries to pay and discharge, at or before maturity, all their respective material obligations and liabilities including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings, and will maintain, and will cause each of its Consolidated Subsidiaries to maintain, in accordance with generally accepted accounting principles, appropriate reserves for the accrual of any of the same.

Section 5.03. *Maintenance of Property; Insurance.*

(a) Each Borrower will, to the best of its ability, keep, and will cause each of its Consolidated Subsidiaries to keep, all material property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted.

(b) Each Borrower will, and will cause each of its Consolidated Subsidiaries to, maintain (either in the name of such Borrower or in such Consolidated Subsidiary's own name) with financially sound and responsible insurance companies, insurance on all their respective properties in at least such

amounts, and with such reasonable amounts of self-insurance, and against at least such risks (and with such risk retention) as are usually insured against in the same general area by companies of established repute engaged in the same or a similar business; and will furnish to the Lenders, upon request from the Administrative Agent, information presented in reasonable detail as to the insurance so carried.

Section 5.04. *Conduct of Business and Maintenance of Existence.* Each Borrower will preserve, renew and keep in full force and effect, and will cause each of its Consolidated Subsidiaries to preserve, renew and keep in full force and effect their respective legal existence and their respective rights, privileges and franchises necessary or desirable in the normal conduct of business; *provided* that nothing in this Section 5.04 shall prohibit (i) the merger of a Consolidated Subsidiary into the Company or the merger or consolidation of a Consolidated Subsidiary with or into another Person if the entity surviving such consolidation or merger is a Consolidated Subsidiary and if, in each case, after giving effect thereto, no Default shall have occurred and be continuing or (ii) the termination of the legal existence of any Consolidated Subsidiary if the Company in good faith determines that such termination (x) is in the best interest of the Company and (y) is not materially disadvantageous to the Lenders.

Section 5.05. *Compliance with Laws.* Each Borrower will comply, and cause each of its Consolidated Subsidiaries to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder) except where the necessity of compliance therewith is contested in good faith by appropriate proceedings.

Section 5.06. *Inspection of Property, Books and Records.* Each Borrower will keep, and will cause each of its Consolidated Subsidiaries to keep, proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will permit, and will cause each of its Consolidated Subsidiaries to permit, representatives of any Lender at such Lender's expense to visit and inspect any of their respective properties, to examine any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants in the presence of such officers, all at such reasonable times and as often as may reasonably be desired.

Section 5.07. *Minimum Consolidated Stockholder's Equity.* Consolidated Stockholders' Equity will at no time be less than \$1,310,000,000.

Section 5.08. *Negative Pledge.* Neither the Company nor any Consolidated Subsidiary will create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except:

(a) Liens existing on the date of this Amended Agreement securing Debt outstanding on the date of this Amended Agreement in an aggregate principal amount not exceeding \$100,000,000;

(b) any Lien existing on any asset of any entity at the time such entity becomes a Consolidated Subsidiary and not created in contemplation of such event;

(c) any Lien on any asset securing Debt incurred or assumed for the purpose of financing an amount not to exceed all or any part of the cost of acquiring such asset, provided that such Lien attaches to such asset concurrently with or within 90 days after the acquisition thereof;

(d) any Lien on any asset of any entity existing at the time such entity is merged or consolidated with or into the Company or a Consolidated Subsidiary and not created in contemplation of such event;

(e) any Lien existing on any asset prior to the acquisition thereof by the Company or a Consolidated Subsidiary and not created in contemplation of such acquisition;

(f) any Lien arising out of the refinancing, extension, renewal or refunding of any Debt secured by any Lien permitted by any of the foregoing clauses of this Section 5.08, provided that such Debt is not increased and is not secured by any additional assets;

(g) Liens arising in the ordinary course of its business which (i) do not secure Debt or any obligations of the type referred to in the proviso to the definition of Debt, (ii) do not secure any obligation in an amount exceeding \$75,000,000 and (iii) do not in the aggregate materially detract from the value of its assets or materially impair the use thereof in the operation of its business; and

(h) Liens not otherwise permitted by the foregoing clauses of this Section 5.08 securing Debt in an aggregate principal amount at any time outstanding not to exceed 10% of Consolidated Stockholders' Equity.

Section 5.09. *Consolidation, Mergers and Sales of Assets.* Neither the Company nor any Consolidated Subsidiary will (i) consolidate or merge with or into any other Person or (ii) sell, lease or otherwise transfer, directly or indirectly, all or any substantial part of the assets of the Company and its Consolidated Subsidiaries, taken as a whole, to any other Person; *provided* that (A) the Company and any Consolidated Subsidiary may merge with another Person (other than a merger of a Consolidated Subsidiary with the Company) if the Company or such Consolidated Subsidiary is the entity surviving such merger and if, immediately after giving effect to such merger, no Default shall have occurred

and be continuing, (B) the Company and any Consolidated Subsidiary may merge with each other if immediately after giving effect to such merger, no Default shall have occurred and be continuing; *provided* that, if the Company is not the Person surviving such merger, such Person (1) is a entity organized under the laws of any State of the United States of America and (2) shall have assumed all obligations of the Company under this Agreement and any Note pursuant to an instrument satisfactory in form and substance to the Administrative Agent, (C) any Consolidated Subsidiary may merge with or into any other Consolidated Subsidiary, so long as a Consolidated Subsidiary is the Person surviving such merger and (D) the Company may consummate a Holding Company Reorganization so long as after giving effect thereto, (w) no Default shall have occurred and be continuing, (x) the Holding Company shall have assumed, pursuant to an instrument in form and substance reasonably satisfactory to the Administrative Agent, the obligations of the Company under this Agreement and its Notes, (y) the Administrative Agent shall have received an opinion of counsel with respect to the Holding Company substantially to the effect of Exhibit B hereto and such other evidence of compliance herewith as the Administrative Agent may reasonably request, all in form and substance reasonably satisfactory to the Administrative Agent, and (z) the senior unsecured long-term debt ratings assigned by S&P, Moody's and Fitch, respectively, to the Holding Company are no lower than those assigned to the Company immediately prior to the Holding Company Reorganization.

Section 5.10. *Use of Proceeds.* The proceeds of the Loans made under this Agreement will be used by the Borrowers for general business purposes. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any "margin stock" within the meaning of Regulation U.

ARTICLE 6

DEFAULTS

Section 6.01. *Events of Default.* If one or more of the following events (" **Events of Default** ") shall have occurred and be continuing:

- (a) any principal of any Loan or any Reimbursement Obligation shall not be paid when due, or any interest, any fees or any other amount payable hereunder, shall not be paid within five days of the due date therefor;
- (b) the Company shall fail to observe or perform any covenant contained in Sections 5.07 to 5.10, inclusive;
- (c) any Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement (other than those covered by clause (a) or

(b) above) for 30 days after written notice thereof has been given to the Company by the Administrative Agent at the request of any Lender;

(d) the guaranty provided by the Company under Section 10.01 of this Agreement shall cease to be in full force and effect;

(e) any representation, warranty, certification or statement made by any Borrower in this Agreement or in any certificate, financial statement or other document delivered pursuant to this Agreement shall prove to have been incorrect in any material respect when made (or deemed made);

(f) the Company or any Consolidated Subsidiary shall fail to make any payment in respect of any Material Debt when due or within any applicable grace period;

(g) any event or condition shall occur which results in the acceleration of the maturity of any Material Debt or enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Debt or any Person acting on such holder's behalf to accelerate the maturity thereof;

(h) the Company or any Consolidated Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any legal action to authorize any of the foregoing;

(i) an involuntary case or other proceeding shall be commenced against the Company or any Consolidated Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company or any Consolidated Subsidiary under the federal bankruptcy laws as now or hereafter in effect;

(j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$75,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the

ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or a default, within the meaning of Section 4219 (c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$75,000,000;

(k) a judgment or order for the payment of money in excess of \$100,000,000 shall be rendered against the Company or any Consolidated Subsidiary and such judgment or order shall continue unsatisfied and unstayed for the shorter of (x) a period of 30 days and (y) the period during which a request or proceeding for stay of enforcement of such judgment or order is permitted under the rules of the relevant jurisdiction; or

(l) (i) any person or group of persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934, as amended) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under said Act) of 20% or more of the outstanding shares of common stock of the Company; or, (ii) during any period of 18 consecutive calendar months, individuals who were directors of the Company on the first day of such period shall cease to constitute a majority of the board of directors of the Company; *provided* that if a Holding Company Reorganization is consummated in compliance with Section 5.09, (x) neither the Holding Company Reorganization nor any of the transactions giving rise to the Holding Company Reorganization shall give rise to a Default pursuant to clause (i), and (y) clause (ii) shall apply as if the Company prior thereto and the Company subsequent thereto were the same Person;

then, and in every such event, the Administrative Agent shall (i) if requested by Lenders having more than 50% in aggregate amount of the Commitments, by notice to the Company terminate the Commitments and they shall thereupon terminate, and (ii) if requested by Lenders holding more than 50% in aggregate principal amount of the Loans, by notice to the Company declare the Loans (together with accrued interest thereon) to be, and the Loans shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by each Borrower; *provided* that in the case of any of the Events of Default specified in clause 6.01(h) or 6.01(i) above with respect to any Borrower, without any notice to any Borrower or any other act by the Administrative Agent or the Lenders, the Commitments shall thereupon terminate and the Loans (together with accrued interest thereon) shall become immediately due and payable without presentment,

demand, protest or other notice of any kind, all of which are hereby waived by each Borrower.

Section 6.02. *Notice of Default.* The Administrative Agent shall give notice to the Company under Section 6.01(c) promptly upon being requested to do so by any Lender and shall thereupon notify all the Lenders thereof.

Section 6.03 . *Cash Cover.* Each Borrower agrees, in addition to the provisions in Section 6.01, that upon the occurrence and during the continuance of any Event of Default, it shall, if requested by the Administrative Agent upon the instruction of the Required Lenders or any Issuing Lender having an outstanding Letter of Credit, Cash Collateralize all Letters of Credit outstanding at such time (or, in the cast of a request by an Issuing Bank, all such Letters of Credit issued by it), *provided* that, upon the occurrence of any Event of Default specified in clause (h) or (i) above with respect to any Borrower, the Borrowers shall Cash Collateralize all outstanding Letters of Credit forthwith without any notice or demand or any other act by the Administrative Agent, any Issuing Lender or any Lender.

ARTICLE 7

THE ADMINISTRATIVE AGENT

Section 7.01 . *Appointment and Authorization.* Each Lender irrevocably appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement and the Notes as are delegated to the Administrative Agent by the terms hereof or thereof, together with all such powers as are reasonably incidental thereto.

Section 7.02. *Administrative Agent and Affiliates.* JPMorgan Chase Bank, N.A. shall have the same rights and powers under this Agreement as any other Lender and may exercise or refrain from exercising the same as though it were not the Administrative Agent, and JPMorgan Chase Bank, N.A. and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with any Borrower or any Consolidated Subsidiary or affiliate of any Borrower as if it were not the Administrative Agent.

Section 7.03. *Action by Administrative Agent.* The obligations of the Administrative Agent hereunder are only those expressly set forth herein. Without limiting the generality of the foregoing, the Administrative Agent shall not be required to take any action with respect to any Default, except as expressly provided in Article 6.

Section 7.04. *Consultation with Experts.* The Administrative Agent shall not be liable for any action taken or omitted to be taken by it in good faith in

accordance with the advice of legal counsel (who may be counsel for any Borrower), independent public accountants and other experts selected by it.

Section 7.05. *Liability of Administrative Agent.* Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be liable for any action taken or not taken by it in connection herewith (i) with the consent or at the request of the Required Lenders or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with this Agreement or any Borrowing or issuance of a Letter of Credit hereunder; (ii) the performance or observance of any of the covenants or agreements of any Borrower; (iii) the satisfaction of any condition specified in Article 3 except receipt of items required to be delivered to the Administrative Agent; or (iv) the validity, effectiveness or genuineness of this Agreement, the Notes, the Letters of Credit or any other instrument or writing furnished in connection herewith. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, statement, or other writing (which may be a bank wire or similar writing) believed by it to be genuine or to be signed by the proper party or parties.

Section 7.06. *Indemnification.* Each Lender shall, ratably in accordance with its Commitment, indemnify the Administrative Agent and each Issuing Lender, their affiliates and their respective directors, officers, agents and employees (to the extent not reimbursed by the Borrowers) against any cost, expense (including counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from such indemnitees' gross negligence or willful misconduct) that such indemnitees may suffer or incur in connection with this Agreement or any Letter of Credit or any action taken or omitted by such indemnitees hereunder or thereunder.

Section 7.07. *Credit Decision.* Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking any action under this Agreement.

Section 7.08. *Successor Administrative Agent.* The Administrative Agent may resign at any time by giving written notice thereof to the Lenders and the Company. Upon any such resignation, the Required Lenders shall have the right

to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent gives notice of resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a commercial bank organized or licensed under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$50,000,000. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent.

Section 7.09. *Administrative Agent's Fee.* The Company shall pay to the Administrative Agent for its own account fees in the amounts and at the times previously agreed upon between the Borrower and the Administrative Agent.

Section 7.10. *Co-Syndication Agents.* Nothing in this Agreement shall impose any duty or liability whatsoever on any of the Co-Syndication Agents in such capacity.

ARTICLE 8 CHANGE IN CIRCUMSTANCES

Section 8.01. *Basis for Determining Interest Rate Inadequate or Unfair.* If on or prior to the first day of any Interest Period for any Euro-Currency Loan:

(a) the Administrative Agent determines that adequate and fair means do not exist for determining the applicable London Interbank Offered Rate for such Interest Period, or

(b) Lenders having 50% or more of the aggregate amount of the Commitments advise the Administrative Agent that the London Interbank Offered Rate as determined by the Administrative Agent will not adequately and fairly reflect the cost to such Lenders of funding their Euro-Currency Loans for such Interest Period,

the Administrative Agent shall forthwith give notice thereof to the Company and the Lenders, whereupon, until the Administrative Agent notifies the Company that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro-Currency Loans in the relevant currency,

or to continue or convert outstanding Loans as or into Euro-Currency Loans in the relevant currency, shall be suspended and (ii) each outstanding Euro-Currency Loan in the relevant currency shall be prepaid (or, in the case of a Euro-Dollar Loan, converted into a Base Rate Loan) on the last day of the then current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least one Domestic Business Day before the date of any Euro-Currency Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing in an equal Dollar Amount.

Section 8.02. *Illegality.* If, on or after the date of this Amended Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Currency Loans to any Borrower in any currency and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Company, whereupon until such Lender notifies the Company and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro-Currency Loans to such Borrower in such currency shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section 8.02, such Lender shall designate a different Euro-Currency Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each affected Euro-Currency Loan of such Lender then outstanding shall be converted to a Base Rate Loan (in the case of an Alternative Currency Loan, in a principal amount determined on the basis of the Spot Rate on the date of conversion) either (a) on the last day of the then current Interest Period applicable to such Euro-Currency Loan if such Lender may lawfully continue to maintain and fund such Loan as a Euro-Currency Loan to such day or (b) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan as a Euro-Currency Loan to such day.

Section 8.03. *Increased Cost and Reduced Return.*

(a) If on or after the date of this Amended Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its

Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency, shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding with respect to any Euro-Currency Loan any such requirement with respect to which such Lender is entitled to compensation during the relevant Interest Period under Section 2.14), special deposit, insurance assessment or similar requirement against assets of, deposits with or for the account of, or credit extended by, such Lender (or its Applicable Lending Office) or shall impose on any Lender (or its Applicable Lending Office) or on the London interbank market any other condition affecting its Euro-Currency Loans, its Note(s) or its obligation to make Euro-Currency Loans or its obligations hereunder in respect of Letters of Credit and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making or maintaining any Euro-Currency Loan or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or under its Note(s) with respect thereto, by an amount deemed by such Lender to be material, then, within 15 days after demand by such Lender (with a copy to the Administrative Agent), the Company shall pay to such Lender such additional amount or amounts as will compensate such Lender for such increased cost or reduction.

(b) If any Lender shall have determined that, after the date of this Agreement, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or its Parent) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or its Parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, within 15 days after demand by such Lender (with a copy to the Administrative Agent), the Company shall pay to such Lender such additional amount or amounts as will compensate such Lender (or its Parent) for such reduction.

(c) Each Lender will promptly notify the Company and the Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Lender to compensation pursuant to this Section 8.03 and will designate a different Applicable Lending Office if such

designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section 8.03 and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

Section 8.04 . *Taxes.*

(a) Any and all payments by any Borrower to or for the account of any Lender or the Administrative Agent hereunder or under any Note shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, *excluding* , in the case of each Lender and the Administrative Agent, taxes imposed on or measured by its income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Lender or the Administrative Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Lender, taxes imposed on or measured by its income, and franchise or similar taxes imposed on it, by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as its “ **Taxes** ”, and all such excluded taxes being hereinafter referred to as its “ **Domestic Taxes** ”). If a Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Lender or the Administrative Agent, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 8.04) such Lender or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deductions, (iii) such Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) such Borrower shall furnish to the Administrative Agent, at its address referred to in Section 11.01, the original or a certified copy of a receipt evidencing payment thereof.

(b) In addition, the Company agrees to pay any present or future stamp or documentary taxes and any other excise or property taxes, or charges or similar levies which arise from any payment made hereunder or under any Note or from the execution or delivery of, or otherwise with respect to, this Agreement or any Note (hereinafter referred to as “ **Other Taxes** ”).

(c) The Company agrees to indemnify each Lender and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any

jurisdiction on amounts payable under this Section 8.04) paid by such Lender or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. In addition, the Company agrees to indemnify the Administrative Agent and each Lender for all Domestic Taxes and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, in each case to the extent that such Domestic Taxes result from any payment or indemnification pursuant to this Section for (i) Taxes or Other Taxes imposed by any jurisdiction other than the United States or (ii) Domestic Taxes of the Administrative Agent or such Lender, as the case may be. This indemnification shall be made within 15 days from the date such Lender or the Administrative Agent (as the case may be) makes demand therefor.

(d) At the times indicated herein, each Lender organized under the laws of a jurisdiction outside the United States shall provide the Company with Internal Revenue Service form W-8BEN or W-8ECI (in each case accompanied by any statements which may be required under applicable Treasury regulations), as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Lender is entitled to receive payments under this Agreement (i) without deduction or withholding of any United States federal income taxes or (ii) subject to a reduced rate of United States federal withholding tax, unless, in each case of clause (i) and (ii) of this Section 8.04(d), an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders such forms inapplicable or which would prevent the Lender from duly completing and delivering any such form with respect to it and the Lender advises the Company and the Administrative Agent that it is not capable of receiving payments without any deduction or withholding of such taxes. Such forms shall be provided (x) on or prior to the date of the Lender's execution and delivery of this Agreement in the case of each Lender listed on the signature pages hereof, and on or prior to the date on which it becomes a Lender in the case of each other Lender, and (y) on or before the date that such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form so delivered by the Lender. If the form provided by a Lender at the time such Lender first becomes a party to this Agreement indicates a United States interest withholding tax rate in excess of zero, United States withholding tax at such rate shall be considered excluded from "Taxes" as defined in Section 8.04(a). In addition, to the extent that for reasons other than a change of treaty, law or regulation any Lender becomes subject to an increased rate of United States interest withholding tax while it is a party to this Agreement, United States withholding tax at such increased rate shall be considered excluded from "Taxes" as defined in Section 8.04(a).

(e) For any period with respect to which a Lender has failed to provide the Company with the appropriate form in accordance with Section 8.04(d) (unless such failure is excused by the terms of Section 8.04(d)), such Lender shall not be entitled to indemnification under Section 8.04(a) or 8.04(c) with respect to Taxes imposed by the United States; *provided, however*, that should a Lender, which is otherwise exempt from or subject to a reduced rate of withholding tax, become subject to Taxes because of its failure to deliver a form required hereunder, the Company shall take such steps as such Lender shall reasonably request to assist such Lender to recover such Taxes.

(f) If the Company is required to pay additional amounts to or for the account of any Lender pursuant to this Section 8.04, then such Lender will change the jurisdiction of its Applicable Lending Office so as to eliminate or reduce any such additional payment which may thereafter accrue if such change, in the judgment of such Lender in the good faith exercise of its discretion, is not otherwise disadvantageous to such Lender.

Section 8.05. *Base Rate Loans Substituted for Affected Euro-Currency Loans.* If (i) the obligation of any Lender to make, or to continue or convert outstanding Loans as or to, Euro-Currency Loans to any Borrower in any currency has been suspended pursuant to Section 8.02 or (ii) any Lender has demanded compensation under Section 8.03 or 8.04 with respect to its Euro-Currency Loans in any currency and the Company shall, by at least five Euro-Dollar Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Company that the circumstances giving rise to such suspension or demand for compensation no longer exist, all Loans which would otherwise be made by such Lender as (or continued as or converted to) Euro-Currency Loans in such currency to such Borrower shall instead be Base Rate Loans (in the case of Alternative Currency Loans, in the same Dollar Amount as the Euro-Currency Loan that such Lender would otherwise have made in the Alternative Currency) on which interest and principal shall be payable contemporaneously with the related Euro-Currency Loans of the other Lenders. If such Lender notifies the Company that the circumstances giving rise to such suspension or demand for compensation no longer exist, the principal amount of each such Base Rate Loan shall be converted into a Euro-Currency Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Currency Loans of the other Lenders. If such Loan is converted into an Alternative Currency Loan, such Lender, the Administrative Agent and the Borrower shall make such arrangements as shall be required (including increasing or decreasing the amount of such Alternative Currency Loan) so that such Alternative Currency Loan shall be in the same amount as it would have been if the provisions of this Section had never applied thereto.

ARTICLE 9
REPRESENTATIONS AND WARRANTIES OF ELIGIBLE SUBSIDIARIES

Each Eligible Subsidiary shall be deemed by the execution and delivery of its Election to Participate to have represented and warranted as of the date thereof that:

Section 9.01. *Legal Existence and Power.* It is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and is and will continue to be a Wholly-Owned Consolidated Subsidiary of the Company.

Section 9.02. *Legal and Governmental Authorization; No Contravention.* The execution and delivery by it of its Election to Participate and its Notes, and the performance by it of this Agreement and its Notes, are within its legal powers, have been duly authorized by all necessary legal action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of its organizational documents or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Company or such Eligible Subsidiary or result in the creation or imposition of any Lien on any asset of the Company or any of its Consolidated Subsidiaries.

Section 9.03. *Binding Effect.* This Agreement constitutes a valid and binding agreement of such Eligible Subsidiary and its Notes, if and when executed and delivered in accordance with this Agreement, will constitute valid and binding obligations of such Eligible Subsidiary.

Section 9.04. *Taxes.* Except as disclosed in such Election to Participate, there is no income, stamp or other tax of any country, or any taxing authority thereof or therein, imposed by or in the nature of withholding or otherwise, which is imposed on any payment to be made by such Eligible Subsidiary pursuant hereto or on its Notes, or is imposed on or by virtue of the execution, delivery or enforcement of its Election to Participate or of its Notes.

ARTICLE 10
GUARANTY

Section 10.01. *The Guaranty.* The Company hereby unconditionally guarantees the full and punctual payment (whether at stated maturity, upon acceleration or otherwise) of the principal of and interest on each Loan made to and each Reimbursement Obligation incurred by any Eligible Subsidiary pursuant to this Agreement, and the full and punctual payment of all other amounts payable by any Eligible Subsidiary under this Agreement. Upon failure by any Eligible

Subsidiary to pay punctually any such amount, the Company shall forthwith on demand pay the amount not so paid at the place and in the manner specified in this Agreement.

Section 10.02. *Guaranty Unconditional.* The obligations of the Company hereunder shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(a) any extension, renewal, settlement, compromise, waiver or release in respect of any obligation of any Eligible Subsidiary under this Agreement or any Note, by operation of law or otherwise;

(b) any modification or amendment of or supplement to this Agreement or any Note;

(c) any release, impairment, non-perfection or invalidity of any direct or indirect security for any obligation of any Eligible Subsidiary under this Agreement or any Note;

(d) any change in the legal existence, structure or ownership of any Eligible Subsidiary, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting any Eligible Subsidiary or its assets or any resulting release or discharge of any obligation of any Eligible Subsidiary contained in this Agreement or any Note;

(e) the existence of any claim, set-off or other rights which the Company may have at any time against any Eligible Subsidiary, the Administrative Agent, any Lender or any other Person, whether in connection herewith or any unrelated transactions, provided that nothing herein shall prevent the assertion of any such claim by separate suit or compulsory counterclaim;

(f) any invalidity or unenforceability relating to or against any Eligible Subsidiary for any reason of this Agreement or any Note, or any provision of applicable law or regulation purporting to prohibit the payment by any Eligible Subsidiary of the principal of or interest on any Loan or any other amount payable by it under this Agreement; or

(g) any other act or omission to act or delay of any kind by any Eligible Subsidiary, the Administrative Agent, any Lender or any other Person or any other circumstance whatsoever which might, but for the provisions of this paragraph, constitute a legal or equitable discharge of or defense to the Company's obligations hereunder.

Section 10.03. *Discharge Only Upon Payment In Full; Reinstatement In Certain Circumstances.* The Company's obligations hereunder shall remain in

full force and effect until the Commitments shall have terminated and the principal of and interest on the Loans, the Reimbursement Obligations and all other amounts payable by the Company and each Eligible Subsidiary under this Agreement shall have been paid in full. If at any time any payment of the principal of or interest on any Loan or any other amount payable by any Eligible Subsidiary under this Agreement is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of any Eligible Subsidiary or otherwise, the Company's obligations hereunder with respect to such payment shall be reinstated at such time as though such payment had been due but not made at such time.

Section 10.04. *Waiver by the Company.* The Company irrevocably waives acceptance hereof, presentment, demand, protest and any notice not provided for herein, as well as any requirement that at any time any action be taken by any Person against any Eligible Subsidiary or any other Person.

Section 10.05. *Subrogation.* The Company irrevocably waives any and all rights to which it may be entitled, by operation of law or otherwise, upon making any payment hereunder to be subrogated to the rights of the payee against an Eligible Subsidiary with respect to such payment or otherwise to be reimbursed, indemnified or exonerated by or for the account of an Eligible Subsidiary in respect thereof.

Section 10.06. *Stay of Acceleration.* In the event that acceleration of the time for payment of any amount payable by any Eligible Subsidiary under this Agreement or its Notes is stayed upon insolvency, bankruptcy or reorganization of such Eligible Subsidiary, all such amounts otherwise subject to acceleration under the terms of this Agreement shall nonetheless be payable by the Company hereunder forthwith on demand by the Administrative Agent made at the request of the Required Lenders.

ARTICLE 11 MISCELLANEOUS

Section 11.01 . *Notices.* All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, facsimile transmission or similar writing) and shall be given to such party: (a) in the case of the Company at its address or facsimile number set forth below, (b) in the case of the Administrative Agent, at its address or facsimile number set forth below, (c) in the case of an Eligible Subsidiary, at its address or facsimile number set forth in its Election to Participate), (d) in the case of any Lender, at its address or facsimile number set forth in its Administrative Questionnaire or (e) in the case of any party, such other address or facsimile number as such party may hereafter specify for the purpose by notice to the Administrative Agent and the Company.

Each such notice, request or other communication shall be effective (i) if given by facsimile, when such facsimile is transmitted to the facsimile number specified in this Section 11.01 and the appropriate answerback is received, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (iii) if given by any other means, when delivered at the address specified in this Section 11.01; *provided* that notices to the Administrative Agent or an Issuing Lender under Article 2 or Article 8 shall not be effective until received.

Company's Address :

Johnson Controls, Inc.
Attention: Treasurer
5757 North Green Bay Avenue
Post Office Box 591
Milwaukee, WI 53209
Fax: [(414) 524-2443]

Administrative Agent's Address:

JPMorgan Chase Bank, N.A.
1111 Fannin, 10th Floor
Houston, Texas 77002
Attention: Sharon P. Craft
Fax: 713-750-2938
Email: sharon.p.craft@jpmchase.com

Section 11.02 . *No Waivers.* No failure or delay by the Administrative Agent or any Lender in exercising any right, power or privilege hereunder or under any Note shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 11.03 . *Expenses; Indemnification.*

(a) The Company shall pay (i) all reasonable out-of-pocket expenses of the Administrative Agent, including fees and disbursements of special counsel for the Administrative Agent, in connection with the preparation of this Agreement, any waiver or consent hereunder or any amendment hereof or any Default or alleged Default hereunder and (ii) if an Event of Default occurs, all out-of-pocket expenses incurred by the Administrative Agent and each Lender, including the fees and disbursements of outside counsel and the allocated cost of inside counsel, in connection with such Event of Default and collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom.

(b) The Company agrees to indemnify the Administrative Agent and each Lender, their respective affiliates and the respective directors, officers, agents and employees of the foregoing (each an “**Indemnatee**”) and hold each Indemnatee harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnatee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnatee shall be designated a party thereto) brought or threatened relating to or arising out of this Agreement or any actual or proposed use of proceeds of Loans hereunder; *provided* that no Indemnatee shall have the right to be indemnified hereunder for such Indemnatee’s own gross negligence or willful misconduct or violation by such Indemnatee of any statute or regulation (*provided* that such violation was not the result of any breach of statute or regulation or of any provision of this Agreement by the Company or any of its Consolidated Subsidiaries), all as determined by a court of competent jurisdiction.

Section 11.04 . *Sharing of Set-offs*. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to the Loans and Letter of Credit Liabilities held by it which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to the Loans and Letter of Credit Liabilities held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Loans and Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Loans and Letter of Credit Liabilities held by the Lenders shall be shared by the Lenders pro rata; *provided* that nothing in this Section 11.04 shall impair the right of any Lender or its affiliates to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of a Borrower other than its indebtedness hereunder. Each Borrower agrees, to the fullest extent it may effectively do so under applicable law, that any holder of a participation in the Loans and Letter of Credit Liabilities, whether or not acquired pursuant to the foregoing arrangements, may exercise rights of set-off or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of such Borrower in the amount of such participation.

Section 11.05 . *Amendments and Waivers*. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Company and the Required Lenders (and, if the rights or duties of the Administrative Agent or any Issuing Lender are affected thereby, by it); *provided* that no such amendment or waiver shall:

(a) unless signed by each affected Lender, (i) increase the Commitment of any Lender or subject any Lender to any additional obligation, (ii) reduce the principal of or rate of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of principal of or interest on any Loan or for reimbursement in respect of any Letter of Credit or interest thereon or any fees hereunder or for termination of any Commitment, (iv) release the Company from any obligation under Article 10, (v) permit the subordination of any payment or right of payment due to the Lenders under the Loan Documents or (vi) modify the right of a Lender to receive a pro rata share of payments as provided herein;

(b) unless signed by all the Lenders, change the definition of “Required Lenders” or the provisions of this Section 11.05; or

(c) unless signed by an Eligible Subsidiary, (w) subject such Eligible Subsidiary to any additional obligation, (x) increase the principal of or rate of interest on any outstanding Loan of such Eligible Subsidiary, (y) accelerate the stated maturity of any outstanding Loan of such Eligible Subsidiary or (z) change this proviso.

It is understood that the operation of Sections 2.01(c) and 2.20 in accordance with their terms is not an amendment subject to this Section 11.05.

Section 11.06 . *Successors and Assigns.*

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that no Borrower may assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all Lenders.

(b) Any Lender may at any time grant to one or more Persons (each a “ **Participant** ”) participating interests in its Commitment and/or any or all of its Loans and Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to any Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrowers, the Issuing Lenders and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender’s rights and/or obligations hereunder. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrowers hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision hereof; *provided* that such participation agreement may provide that

such Lender will not agree to any modification, amendment or waiver of this Agreement described in clause (a) of Section 11.05 without the consent of the Participant. The Borrowers agree that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Section 2.14 and Article 8 with respect to its participating interest. An assignment or other transfer which is not permitted by subsection 11.06(c), 11.06(d) or 11.06(f) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection 11.06(b).

(c) Any Lender may at any time assign to one or more banks or other institutions (each an “**Assignee**”) all, or a proportionate part (equivalent to an initial Commitment of not less than \$10,000,000) of all, of its rights and obligations under this Agreement and the Notes, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit G hereto executed by such Assignee and such transferor Lender, with (and subject to) the subscribed consent of the Company, the Administrative Agent and each Issuing Lender, such consents not to be unreasonably withheld or delayed; *provided* that if an Assignee is a Lender Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Company shall be required. Upon execution and delivery of such instrument and payment by such Assignee to such transferor Lender of an amount equal to the purchase price agreed between such transferor Lender and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment as set forth in such instrument of assumption, and the transferor Lender shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection, the transferor Lender, the Administrative Agent and the Borrowers shall make appropriate arrangements so that, if required, new Notes are issued to the Assignee. In connection with any such assignment, the transferor Lender shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$2,500.

(d) Any Lender may at any time assign all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank. No such assignment shall release the transferor Lender from its obligations hereunder.

(e) No Assignee, Participant or other transferee of any Lender’s rights shall be entitled to receive any greater payment under Section 8.03 or 8.04 than such Lender would have been entitled to receive with respect to the rights transferred, unless such transfer is made with the Company’s prior written consent or by reason of the provisions of Section 8.02, 8.03 or 8.04 requiring such Lender to designate a different Applicable Lending Office under certain circumstances or

at a time when the circumstances giving rise to such greater payment did not exist.

(f) Notwithstanding anything to the contrary contained in this Section 11.06, but subject to the terms and conditions set forth in this subsection (f), any Lender may from time to time, elect to designate a Conduit to provide all or any part of any Loan required to be made by such Lender pursuant to this Agreement or to acquire a participation interest in any Loans extended by such Lender hereunder (a “ **Conduit Designation** ”), *provided* the designation of a Conduit by any Lender for purposes of this Section 11.06(f) shall be subject to the approval of the Company, which shall not be unreasonably withheld. No additional Note shall be required with regard to a Conduit Designation; *provided, however* , to the extent any Conduit shall advance funds under a Conduit Designation, the designating Lender shall be deemed to hold the Note in its possession as an Administrative Agent for such Conduit to the extent of the Loan funded by such Conduit. Notwithstanding any such Conduit Designation, (x) the designating Lender shall remain solely responsible to the other parties hereto for its obligations under this Agreement and (y) the Borrowers and the Administrative Agent may continue to deal solely and directly with the designating Lender as Administrative Agent for such designating Lender’s Conduit, in connection with all of such Conduit’s rights and obligations under this Agreement, unless and until the Company and the Administrative Agent are notified that the designating Lender has been replaced as Administrative Agent for its Conduit; any payments for the benefit of any designating Lender and its Conduit shall be paid to such designating Lender for itself as Administrative Agent for its Conduit, as applicable; *provided* neither the Administrative Agent nor any Borrower shall be responsible for any designating Lender’s application of any such payments. In addition, any Conduit may (i) with notice to, but without the consent of the Company and the Administrative Agent, and without paying any processing fee therefor, assign all or portions of its interest in any Loans to the Lender that designated such Conduit or to any financial institutions consented to by the Company and the Administrative Agent providing liquidity and/or credit facilities to or for the account of such Conduit to support the funding or maintenance of Loans and (ii) disclose on a confidential basis any non-public information relating to its Loans to any rating agency, commercial paper dealer or provider of any guarantee, surety, credit or liquidity enhancement to such Conduit.

(g) Each party to this Agreement hereby agrees that, at any time a Conduit Designation is in effect, it shall not institute against, or join any other person in instituting against, any Conduit any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding or other proceedings under any federal or state bankruptcy or similar law, for one year and a day after the latest maturing commercial paper note issued by such Conduit is paid. This Section 11.06(g) shall survive the termination of this Agreement.

Section 11.07 . *Collateral*. Each of the Lenders represents to the Administrative Agent and each of the other Lenders that it in good faith is not relying upon any “margin stock” (as defined in Regulation U) as collateral in the extension or maintenance of the credit provided for in this Agreement.

Section 11.08 . *Governing Law; Submission to Jurisdiction*. This Agreement and each Note shall be governed by and construed in accordance with the laws of the State of New York. Each Borrower and each Lender hereby submits, to the fullest extent permitted by applicable law, to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Each Borrower and each Lender irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

Section 11.09 . *Counterparts; Integration*. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

Section 11.10 . *Waiver of Jury Trial*. EACH OF THE BORROWERS, THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 11.11 . *Confidentiality*.

(a) The Lenders agree not to disclose, directly or indirectly, any information obtained from the Company or any of its Subsidiaries in connection with this Agreement and will keep such information confidential; *provided* that (i) each Lender may use, retain and disclose any such information to its affiliates, directors, officers, agents, employees, insurance brokers, counsel, public accountants, any Participants, potential Assignees and Participants and any governmental agency or instrumentality or other supervisory body requesting such disclosure, *provided* that any Participants or potential Assignees or Participants shall have agreed to keep such information confidential in accordance with this Section 11.11, (ii) each Lender may use, retain and disclose any such information which has been publicly disclosed (other than by such Lender or any Lender Affiliate thereof in breach of this Section 11.11), and (iii) to the extent that

such Lender may have received a subpoena or other legal demand for such information, such Lender may disclose such information; *provided* that such Lender shall notify the Company of such demand (to the extent permitted by law and as promptly as practicable) and shall cooperate with the Company, at the Company's expense, to take actions necessary to obtain a protective order limiting the scope of the demand and the use and disclosure of such information.

(b) The parties hereby agree that, from the commencement of discussions with respect to the transactions contemplated by this Agreement (the “**Transactions**”), each party (and each employee, representative or other agent of such party) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure (as such terms are used in Sections 6011, 6111 and 6112 of the Internal Revenue Code and the Treasury Regulations promulgated thereunder) of the Transactions and all materials of any kind (including opinions or other tax analyses) that are provided to such party relating to such tax treatment and tax structure, other than any information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws.

Section 11.12 *USA Patriot Act* . Each Lender hereby notifies the Borrowers that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies each Borrower, which information includes the name and address of each Borrower and other information that will allow such Lender, to identify each Borrower in accordance with the Act.

JOHNSON CONTROLS, INC.
1992 Stock Option Plan
(As amended through January 1, 2007)

1. **Establishment.** JOHNSON CONTROLS, INC. (the “Company”) hereby establishes a stock option plan for certain officers and other key employees, as described herein, which shall be known as the JOHNSON CONTROLS, INC. 1992 STOCK OPTION PLAN (the “Plan”). It is intended that certain of the stock options issued pursuant to the Plan may constitute incentive stock options within the meaning of Section 422 of the Internal Revenue Code (“Incentive Stock Options”) and the remainder of the options issued pursuant to the Plan shall constitute nonqualified options. Incentive Stock Options and nonqualified stock options are hereinafter jointly referred to as “Options.” The Committee may also award stock appreciation rights along with Options issued pursuant to the Plan and, subject to certain limitations, apart from Options issued pursuant to the Plan.
 2. **Purpose.** The purpose of the Plan is to induce certain officers and other key employees to remain in the employ of the Company or its subsidiaries and to encourage such employees to secure or increase on reasonable terms their stock ownership in the Company. The Board of Directors of the Company (the “Board of Directors”) believes that the Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by those who are responsible for shaping and carrying out the long-range plans of the Company and securing its continued growth and financial success.
 3. **Effective Date of the Plan.** The effective date of the Plan is the date of its adoption by the Board of Directors, September 23, 1992, subject to the approval of the Plan by the shareholders of the Company within twelve months of the effective date. Any and all Options granted prior to such approval shall be subject to such approval.
 4. **Stock Subject to the Plan.** Subject to adjustment in accordance with the provisions of paragraph 19, the total number of shares of the common stock of the Company (“Common Stock”), available for awards during the term of this Plan shall not exceed 7,591,758 shares. Shares of Common Stock to be delivered upon exercise of Options or settlement of stock appreciation rights under the Plan shall be made available from presently authorized but unissued Common Stock of the Company or authorized and issued shares of Common Stock reacquired and held as treasury shares, or a combination thereof. If any Option or stock appreciation right shall be canceled, expire or terminate without having been exercised in full, or to the extent a stock appreciation right is settled in cash, the shares of Common Stock allocable to the unexercised, canceled, forfeited portion of such Option or stock appreciation right, or portion of such stock appreciation right which is settled in cash, shall again be available for the purpose of the Plan. The surrender of any Options (and the surrender of any related stock appreciation rights granted under paragraph 18) in connection with the receipt of stock appreciation rights as
-

provided in paragraph 18A shall, as to such Options, have the same effect under this paragraph 4 as the cancellation or termination of such Options without having been exercised. If any stock appreciation rights are granted under the Plan separate and apart from Options (including any grant in connection with the surrender of outstanding Options), as provided in paragraph 18A, and shares of Common Stock may be issuable in connection with such stock appreciation rights, then the grant of such stock appreciation rights shall be deemed to have the same effect under this paragraph 4 as the grant of Options; provided, however, if any such stock appreciation rights shall be canceled, expire or terminate without having been exercised in full, or to the extent a stock appreciation right is settled in cash, the shares of Common Stock allocable to the unexercised, canceled, forfeited portion of such stock appreciation right, or portion of such stock appreciation right which is settled in cash, shall again be available for the purpose of the Plan. If the exercise price of any Option granted under the Plan is satisfied by tendering shares of Common Stock to the Company (by either actual delivery or by attestation), only the number of shares of Common Stock issued net of the shares of Common Stock tendered shall be deemed delivered for purposes of determining the maximum number of shares of Common Stock available for delivery under the Plan. If any Participant satisfies the Company's withholding tax requirements upon the exercise of an Option by properly electing to have the Company withhold shares of Common Stock, then the shares of Common Stock so withheld shall again be available for the purpose of the Plan, except that such shares shall not be available for the granting of Incentive Stock Options.

5. **Administration.** (a) The Plan shall be administered by the Compensation Committee (the "Committee") consisting of not less than three members of the Board of not less than three members of the Board of Directors appointed from time to time by the Board of Directors. No member of the Committee shall be, nor at any time during the preceding one-year period have been, eligible to receive stock, stock options or stock appreciation rights of the Company or of its subsidiaries pursuant to the Plan or any other plan of the Company or its subsidiaries, other than a plan for directors of the Company who are not officers or employees of the Company which provides for automatic grants without exercise of discretion by any member of the Board of Directors, or by any officer or employee of the Company.

(b) Subject to the express provisions of the Plan, the Committee shall have authority to establish such rules and regulations as it deems necessary or advisable for the proper administration of the Plan, and in its discretion, to determine the individuals (the "Participants") to whom, and the time or times at which, Options and stock appreciation rights shall be granted, the type of Options, the Option periods, limitations on Option exercise, and the number of shares to be subject to each Option. In making such determinations, the Committee may take into account the nature of the services rendered by the respective employees, their present and potential contributions to the success of the Company or its subsidiaries, and such other factors as the Committee, in its discretion, shall deem relevant.

(c) Subject to the express provisions of the Plan, the Committee shall also have complete authority to interpret the Plan, to prescribe, amend, and rescind rules and regulations relating to it, to determine the terms and provisions of the respective Option Agreements (which need not be identical) and to make all other determinations necessary or advisable for the administration of the Plan. The Committee's determinations on the matters referred to in this paragraph 5 shall be conclusive and binding upon all parties.

(d) Neither the Committee nor any member thereof shall be liable for any act, omission, interpretation, construction or determination made in connection with the Plan in good faith, and the members of the Committee shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including attorneys fees) arising therefrom to the full extent permitted by law and under any directors and officers liability insurance that may be in effect from time to time.

(e) A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by a majority of the Committee without a meeting, shall be the acts of the Committee.

6. **Eligibility.** Options and stock appreciation rights may be granted to officers and other key employees of the Company and of any of its present and future subsidiaries. The maximum number of shares of Common Stock covered by Options which may be granted to any Participant within any two consecutive calendar year periods shall not exceed 500,000 shares in the aggregate. No Option or stock appreciation right shall be granted to any person who owns, directly or indirectly, shares of stock possessing more than 10% of the total combined voting power of all classes of stock of the Company. A director of the Company or of a subsidiary who is not also an employee of the Company or of a subsidiary will not be eligible to receive any Option or stock appreciation right hereunder.
7. **Rights of Employees.** Nothing in this Plan or in any Option or stock appreciation right shall interfere with or limit in any way the right of the Company and any of its subsidiaries to terminate any Participant's or employee's employment at any time, nor confer upon any Participant or employee any right to continue in the employ of the Company and its subsidiaries.
8. **Option Agreements.** All Options and stock appreciation rights granted under the Plan shall be evidenced by written agreements (an "Option Agreement") in such form or forms as the Committee shall determine.
9. **Option Price.** The per share Option price for Options and for stock appreciation rights granted under paragraph 18, and the per share grant price for stock appreciation rights granted under paragraph 18A, as determined by the Committee, shall be an amount not less than 100% of the fair market value of the stock on the date such Options or stock appreciation rights are granted (or, if the Committee so determines, in the case of any

stock appreciation right granted under paragraph 18A upon the surrender of any outstanding Option, on the date of grant of such Option). The fair market value of a share of stock on any date shall be the average of the highest and lowest market prices of sales of the Common Stock on that date, or on the next preceding trading day if such date was not a trading day as reported on the New York Stock Exchange or as otherwise determined by the Committee. However, effective January 1, 2007, in connection with an exercise of options, to the extent the Participant sells any Shares acquired upon such exercise in a market transaction on the date of exercise, the sale price(s) for any such Shares shall be the fair market value.

10. **Option Period.** The term of each Option and stock appreciation right shall be as determined by the Committee but in no event shall the term of an Option or stock appreciation right exceed a period of ten (10) years from the date of its grant. Each Option and stock appreciation right granted hereunder may be granted at any time on or after the effective date of the Plan, and prior to its termination, provided that no Option or stock appreciation right may be granted later than ten years after the date this Plan is adopted. The Committee shall determine whether any Option or stock appreciation right shall become exercisable in cumulative or non-cumulative installments or in full at any time. An exercisable Stock Option or stock appreciation right, or portion thereof, may be exercised in whole or in part only with respect to whole shares of Common Stock.
11. **Maximum Value of Incentive Stock Options.** The aggregate fair market value (as defined in paragraph 9) of the Common Stock for which any Incentive Stock Options are exercisable for the first time by a Participant during any calendar year under the Plan or any other plan of the Company or any subsidiary shall not exceed \$100,000. To the extent the fair market value of the shares of Common Stock attributable to Incentive Stock Options first exercisable in any calendar year exceeds \$100,000, the excess portion of the Incentive Stock Options shall be treated as nonqualified options.
12. **Transferability of Option or Stock Appreciation Right.** No Option or stock appreciation right granted hereunder shall be transferable other than options specifically designated by the Compensation Committee as such and meeting the following requirements of transfer:
 - (a) by will or by the laws of descent and distribution; or
 - (b) in the case of a nonqualified option:
 - (i) pursuant to a "Qualified Domestic Relations Order" as defined in Section 414(p) of the Internal Revenue Code; or
 - (ii) to (A) his or her spouse, children or grandchildren ("Immediate Family Members"), (B) a partnership in which the only partners are the Participant's Immediate Family Members, or (C) a trust or trusts established solely for the benefit of one or more of the Participant's Immediate Family

Members (collectively, the Permitted Transferees), provided that there may be no consideration for any such transfer by a Participant

Following transfer (if applicable), such Options and stock appreciation rights shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that such Options and stock appreciation rights may be exercised during the life of the Participant only by the Participant or, if applicable, by the alternate payee designated under a Qualified Domestic Relations Order or the Participant's Permitted Transferees.

13. Exercise of Option; Deferral of Shares.

(a) The Committee shall prescribe the manner in which a Participant may exercise an Option which is not inconsistent with the provisions of this Plan. An Option may be exercised, subject to limitations on its exercise contained in the Option Agreement and in this Plan, in full, at any time, or in part, from time to time, only by (A) written notice of intent to exercise the Option with respect to a specified number of shares, and (B) by payment in full to the Company at the time of exercise of the Option, of the option price of the shares being purchased. Payment of the Option price may be made (i) in cash, (ii) if permitted by the applicable Option Agreement, by tendering of shares of Common Stock equivalent in fair market value (as defined in paragraph 9), or (iii) if permitted by the applicable Option Agreement, partly in cash and partly in shares of Common Stock. Common Stock may be tendered either by actual delivery of shares of Common Stock or by attestation.

(b) The Committee may provide one or more means to enable Participants and the Company to defer delivery of shares of Common Stock deliverable upon exercise of an Option, on such terms and conditions as the Committee may determine, including by way of example the manner and timing of making a deferral election, the treatment of dividends paid on shares of Common Stock during the deferral period and the permitted distribution dates or events. No such deferral means may result in any increase in the number of shares of Common Stock issuable hereunder other than as contemplated by paragraph 4 or paragraph 19 hereof.

14. Withholding. If permitted by the applicable Option Agreement, a Participant may be permitted to satisfy the Company's withholding tax requirements by electing (i) to have the Company withhold shares of Common Stock of the Company, or (ii) to deliver to the Company shares of Common Stock of the Company having a fair market value on the date income is recognized on the exercise of a nonqualified option equal to the minimum amount required to be withheld, or such greater amount as may be requested by the Participant. The election shall be made in writing and according to such rules and in such form as the Committee shall determine.

Notwithstanding the foregoing, the election and satisfaction of any withholding requirement through the withholding of Common Stock or the tender of shares of

Company Stock may be made only at such times as are permitted, without incurring liabilities, by Rule 16b-3 of the Securities Exchange Act of 1934, as amended, or such other securities laws, rules or regulations as may be applicable.

15. [intentionally omitted]

16. [intentionally omitted]

17. **Termination of Employment.** (a) In the event a Participant's employment with the Company or any of its subsidiaries shall be terminated for any reason, except early retirement or total and permanent disability, all rights to exercise an Option or stock appreciation right shall terminate immediately.

(b) If the Participant should die while employed by the Company or any subsidiary prior to the expiration of the term of the Option or stock appreciation right, the Option or stock appreciation right may be exercised by the person to whom it is transferred by will or by the applicable laws of descent and distribution to the extent it could have been exercised by the Participant had he lived, by giving notice as provided in paragraph 13, at any time within twelve months after the date of death unless such Option or stock appreciation right expires earlier under the terms of the Option Agreement.

(c) In the event of termination of employment with the Company due to early or normal retirement, or due to total and permanent disability prior to the expiration of the term of an Option or stock appreciation right, the Option or stock appreciation right may be exercised by the Participant, to the extent it could have been exercised had the Participant remained actively employed, at any time within thirty-six months (except Incentive Stock Options which may be exercised within three months) after the date of such early or normal retirement or total permanent disability, as the case may be, unless such Option or stock appreciation right expires earlier under the terms of the Option Agreement. Provided, however, that for certain participants who are officers of the corporation or who are selected by the Compensation Committee of the Board, nonqualified options granted after July 27, 1999, may be exercised by the Participant for five years of the Option or stock appreciation right in the event of termination of employment with the Company due to early or normal retirement, or due to total and permanent disability, prior to the expiration of the term of the Option or stock appreciation right. For purposes hereof, a Participant's employment shall be deemed to have terminated due to (a) early or normal retirement if such Participant is then eligible to receive early or normal retirement benefits under the provisions of any of the Company's or its subsidiaries pension plans; or, in the absence of a pension plan, provided such Participant retires with ten years of service and is at least 55 years old or retires with five years of service and is at least 65 years old and (b) total and permanent disability if he is permanently disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code, as in effect from time to time.

For purposes of this Plan: (a) a transfer of an employee from the Company to a 50% or more owned subsidiary, partnership, joint venture or other affiliate (whether or not

incorporated) or vice versa, or from one subsidiary, partnership, joint venture or other affiliate to another or (b) a leave of absence duly authorized in writing by the Company, provided the employee's right to re-employment is guaranteed either by statute or by contract, shall not be deemed a termination of employment under the Plan. Notwithstanding the foregoing, from and after a Change of Control, as defined in paragraph 22, Options (other than Incentive Stock Options granted prior to May 24, 1989) and stock appreciation rights shall continue to be exercisable for three months after a Participant's termination of employment.

18. **Stock Appreciation Rights.** Stock appreciation rights may be granted in conjunction with all or part of any Option granted under the Plan. Stock appreciation rights may be exercised by a Participant by surrendering the related Option or applicable portion thereof. Upon such exercise and surrender, the Participant shall be entitled to receive the economic value of such stock appreciation rights determined in the manner prescribed in subparagraph (b) of the Paragraph 18 and in the form prescribed in subparagraph (c) of this Paragraph 18. Options which have been so surrendered, in whole or in part, shall no longer be exercisable. Stock appreciation rights shall be subject to such terms and conditions not inconsistent with other provisions of the Plan as shall be determined by the Committee, which shall include the following:
- (a) Stock appreciation rights shall be exercisable or transferable at such time or times and only to the extent that the Option to which they relate is exercisable or transferable.
 - (b) Upon the exercise of stock appreciation rights, a Participant shall be entitled to receive the economic value thereof, which value shall be equal to the excess of the fair market value of one share of Common Stock of the Company on the date of exercise over the Option price per share, multiplied by the number of shares in respect of which the stock appreciation rights shall have been exercised.
 - (c) The Committee shall have sole discretion either (i) to determine the form in which payment of such economic value will be made (i.e. cash, stock, or any combination thereof) or (ii) to consent to or disapprove the election of the Participant to receive cash in full or partial payment of such economic value.
 - (d) The exercise of stock appreciation rights by a Participant pursuant to the Plan may be made only at such times as are permitted by Rule 16b-3 of the Securities Exchange Act of 1934, without liabilities, or such other securities laws or rules as may be applicable.
 - (e) Common Stock subject to the Option to which the stock appreciation rights relate exceeds the exercise price of such Option.
- 18A. **Other Stock Appreciation Rights.** Stock appreciation rights may also be granted separate from any Option granted under the Plan to any Participant who at the time of grant is not then an officer of the Company for purposes of Section 16 of the Securities Exchange Act of 1934, as amended (a "Section 16 Officer"). The Committee may also

grant stock appreciation rights under this paragraph 18A to any person who is not then a Section 16 Officer in connection with the surrender of any outstanding Option granted under the Plan prior to September 22, 1993 (and the surrender of any related stock appreciation rights granted under paragraph 18). Such stock appreciation rights may be exercised by a Participant by written notice of intent to exercise the stock appreciation rights delivered to the Committee, which notice shall state the number of shares of stock in respect of which the stock appreciation rights are being exercised. Upon such exercise, the Participant shall be entitled to receive the economic value of such stock appreciation rights determined in the manner described in subparagraph (b) of this paragraph 18A and in the form prescribed in subparagraph (c) of this paragraph 18A.

Stock appreciation rights shall be subject to terms and conditions not inconsistent with other provisions of the Plan as shall be determined by the Committee, which shall include the following:

(a) Stock appreciation rights granted in connection with the surrender of an Option shall be exercisable or transferable at such time or times and only to the extent that the Option to which they related was exercisable or transferable. The Committee shall have complete authority to determine the terms and conditions applicable to other stock appreciation rights, including the periods applicable to such rights, limitations on exercise and the number of shares of stock in respect to which such stock appreciation rights are exercisable.

(b) Upon the exercise of stock appreciation rights, a Participant shall be entitled to receive the economic value thereof, which value shall be equal to the excess of the fair market value of one share of Common Stock of the Company on the date of exercise over the grant price per share, multiplied by the number of shares in respect of which the stock appreciation rights shall have been exercised. Stock appreciation rights which have been so exercised shall no longer be exercisable in respect of such number of shares.

(c) The Committee shall have the sole discretion either (i) to determine the form in which payment of such economic value will be made (i.e., cash, stock, or any combination thereof) or (ii) to consent to or disapprove the election of the Participant to receive cash in full or partial payment of such economic value. (d) The exercise of stock appreciation rights by a Participant pursuant to the Plan may be made only at such times as are permitted by Rule 16b-3 of the Securities Exchange Act of 1934, without liabilities, or such other securities laws or rules as may be applicable. (e) Stock appreciation rights shall be exercisable only when the fair market value of the Common Stock to which the stock appreciation rights relate exceeds the grant price of such stock appreciation rights.

19. **Adjustment Provisions.** In the event of any change in the shares of the Common Stock of the Company by reason of a declaration of a stock dividend (other than a stock dividend declared in lieu of an ordinary cash dividend), spin-off, merger, consolidation, recapitalization, or split-up, combination or exchange of shares, or otherwise, the aggregate number and class of shares available under this Plan *(including the per*

Participant limit on awards in Section 6) , the number and class of shares subject to each outstanding Option and stock appreciation right, and the option price or grant price and economic value of any stock appreciation rights shall be appropriately adjusted by the Committee, whose determination shall be final and conclusive. Unless the Committee determines otherwise, any such adjustment to an award that is exempt from Code Section 409A shall be made in manner that permits the award to continue to be so exempt, and any adjustment to an award that is subject to Code Section 409A shall be made in a manner that complies with the provisions thereof. Notwithstanding the foregoing, in the case of a stock dividend (other than a stock dividend declared in lieu of an ordinary cash dividend) or split-up (including a reverse stock split), if no action is taken by the Committee, adjustments contemplated by this subsection that are proportionate shall nevertheless automatically be made as of the date of such stock dividend or split-up.

20. **Termination and Amendment of Plan.** The Plan shall terminate on September 22, 2002, unless sooner terminated as hereinafter provided. The Board of Directors may at any time terminate the Plan, or amend the Plan as it shall deem advisable including (without limiting the generality of the foregoing) any amendments deemed by the Board of Directors to be necessary or advisable to assure conformity of the Plan and any Incentive Stock Options granted thereunder to the requirements of Section 422 of the Internal Revenue Code as now or hereafter in effect and to assure conformity with any requirements of other state and federal laws or regulations now or hereafter in effect; provided, however, that the Board of Directors may not, without further approval by the shareholders of the Company, make any modifications which, by applicable law, require such approval. No termination or amendment of the Plan may, without the consent of the Participant to whom any Option or stock appreciation rights shall have been granted, adversely affect the rights of such Participant under such Option or stock appreciation rights. The Board of Directors may also, in its discretion, permit any Option or stock appreciation right to be exercised prior to the earliest date fixed for exercise thereof under the Option Agreement. Notwithstanding the foregoing, unless determined otherwise by the Board or Committee, any such amendment shall be made in a manner that will enable an award intended to be exempt from Code Section 490A to continue to be so exempt, or to enable an award intended to comply with Code Section 409A to continue to so comply.
21. **Rights of a Shareholder.** A Participant shall have no rights as a shareholder with respect to shares covered by his or her Option until the date of issuance of the stock certificate to the participant and only after such shares are fully paid or with respect to stock appreciation rights. No adjustment will be made for dividends or other rights for which the record date is prior to the date such stock is issued.
22. **Change of Control.** Notwithstanding the foregoing, upon Change of Control, all previously granted Options and stock appreciation rights shall immediately become exercisable to the full extent of the original grant. For purposes of this Plan, a “Change of Control” means any of the following events:(i) the acquisition, other than from the Company, by any individual, entity or group (within the meaning of Section 13(d) or

14(d)(2) of the Securities Exchange Act of 1934, as amended from time to time) (the “Exchange Act”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Company Voting Securities”), provided, however, that any acquisition by (x) the Company of any of its subsidiaries, or any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries or (y) any corporation with respect to which, following such acquisition, more than 60% of respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, shall not constitute a change in control of the Company; or (ii) individuals who, as of May 24, 1989, constitute the Board of Directors of the Company (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board, provided that any individual becoming a director subsequent to May 24, 1989, whose election or nomination for election by the Company’s shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or (iii) approval by the shareholders of the Company of a reorganization, merger or consolidation (a “Business Combination”), in each case, with respect to which all or substantially all of the of the individuals and entities who were the respective beneficial owners of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such Business Combination do not, following such Business Combination, beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporations resulting from such Business Combination in substantially the same proportion as their ownership immediately prior to such Business Combination or the Outstanding Company Common Stock and Company Voting Securities, as the case may be; or (iv) (A) a complete liquidation or dissolution of the company or a (B) sale or other disposition of all or substantially all of the assets of the Company other than to a corporation with respect to which, following such sale or disposition, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of

the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, immediately prior to such sale or disposition.

23. **Termination of Awards.** Notwithstanding the foregoing, upon a Change in Control, the Committee may in its discretion, commencing at the time of a Change in Control and continuing for a period of sixty days thereafter, cancel each outstanding Option or stock appreciation right in exchange for a cash payment to the holder thereof in an amount equal to the number of Options or stock appreciation rights that have not been exercised multiplied by the excess of the fair market value per Share on the date of the Change in Control (or, if the Change in Control is the result of a transaction or a series of transactions described in paragraphs (i) or (ii) of the definition of Change in Control and the Option or stock appreciation right is cancelled on the date of the Change in Control, the highest price per Share paid in such transaction or series of transactions on the date of the Change in Control) over the exercise price of the Option or the grant price of the stock appreciation right, as the case may be.
24. **Governing Law.** The Plan, all awards hereunder, and all determinations made and actions taken pursuant to the Plan shall be governed by the laws of the State of Wisconsin and construed in accordance therewith, to the extent not otherwise governed by the laws of the United States.
25. **Unfunded Plan.** This Plan shall be unfunded. No person shall have any rights greater than those of a general creditor of the Company.
26. **Code Section 409A.** The provisions of Code Section 409A are incorporated herein by reference to the to the extent necessary for any award that is subject to Code Section 409A to comply therewith. Notwithstanding any provisions of the Plan, the Company does not guarantee to any Participant or any other person with an interest in an award that any award intended to be exempt from Code Section 409A shall be so exempt, nor that any award intended to comply with Code Section 409A shall so comply, nor will the Company or any affiliate indemnify, defend or hold harmless any individual with respect to the tax consequences of any such failure.

**JOHNSON CONTROLS, INC.
DEFERRED COMPENSATION PLAN FOR CERTAIN DIRECTORS**

**ARTICLE 1.
PURPOSE AND DURATION**

Section 1.1. Purpose . The purpose of the Johnson Controls, Inc. Deferred Compensation Plan for Certain Directors (the “Plan”) is to advance the Company’s growth and success, and to advance the interests of its shareholders, by attracting and retaining well-qualified directors upon whose judgment the Company is largely dependent for the successful conduct of its operations.

Section 1.2. Duration . The Plan was originally effective on September 25, 1991. The Plan was most recently amended and restated effective January 1, 2005. The Plan shall remain in effect until terminated pursuant to the provisions of Article 9.

**ARTICLE 2.
DEFINITIONS AND CONSTRUCTION**

Section 2.1. Definitions . Wherever used in the Plan, the following terms shall have the meanings set forth below and, where the meaning is intended, the initial letter of the word is capitalized:

(a) “Account” means the record keeping account or accounts maintained to record the interest of each Participant under the Plan. An Account is established for record keeping purposes only and not to reflect the physical segregation of assets on the Participant’s behalf, and may consist of such subaccounts or balances as the Administrator may determine to be necessary or appropriate.

(b) “Act” means the Securities Act of 1933, as interpreted by regulations and rules issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of the Act shall be deemed to include reference to any successor provision thereto.

(c) “Administrator” means the Employee Benefits Policy Committee of the Company.

(d) “Affiliate” means each entity that is required to be included in the Company’s controlled group of corporations within the meaning of Code Section 414(b), or that is under common control with the Company within the meaning of Code Section 414(c).

(e) “Beneficiary” means the person(s) or entity(ies) designated by a Participant to be his beneficiary for purposes of this Plan as provided in Section 6.5.

(f) “Board” means the Board of Directors of the Company.

(g) “Change of Control” has the meaning ascribed to such term in Section 8.2.

(h) “Code” means the Internal Revenue Code of 1986, as interpreted by regulations and rulings issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of the Code shall be deemed to include reference to any successor provision thereto.

(i) “Committee” means the Corporate Governance Committee of the Board, which shall consist of not less than two members of the Board, each of whom shall be a non-employee director within the meaning of Rule 16b-3 of the Exchange Act.

(j) “Company” means Johnson Controls, Inc. and its successors as provided in Section 9.9.

(k) “Deferral” means the amount credited, in accordance with a Participant’s election, to the Participant’s Account in lieu of the payment in cash or Shares.

(l) “Exchange Act” means the Securities Exchange Act of 1934, as interpreted by regulations and rules issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of the Exchange Act shall be deemed to include reference to any successor provision thereto.

(m) “Fair Market Value” means with respect to a Share, except as otherwise provided herein, the closing sales price of a Share on the New York Stock Exchange as of 4:00 p.m. EST on the date in question (or the immediately preceding trading day if the date in question is not a trading day), and with respect to any other property, such value as is determined by the Administrator.

(n) “Inimical Conduct” means any act or omission that is inimical to the best interests of the Company or any Affiliate or other, as determined by the Committee in its sole discretion, including but not limited to: (1) divulging at any time any confidential information, technical or otherwise, obtained by a Participant in his capacity as a director, (2) taking any steps or doing anything which would damage or negatively reflect on the reputation of the Company or any subsidiary, or (3) refusing to furnish such advisory or consulting services as the Company may reasonably request and as the Participant’s health may permit, *provided* that such services shall be rendered as an independent contractor and not as an employee and that the Company shall pay reasonable compensation for such services, as well as reimbursement for expenses incurred in connection therewith.

(o) “Investment Options” means the investment options offered under the Johnson Controls Savings and Investment (401k) Plan (excluding the Company stock fund) or any successor plan thereto, the Share Unit Account, and any other alternatives made available by the Administrator, which shall be used for the purpose of measuring hypothetical investment experience attributable to a Participant’s Account.

(p) “Outside Director” means a member of the Board who is not an officer or employee of the Company or a subsidiary.

(q) “Participant” means an Outside Director who has elected to make Deferrals hereunder. Where the context so requires, a Participant also means a former director entitled to a benefit hereunder.

(r) “Separation from Service” means the cessation of service as a Board member, for any reason, provided the cessation of service is a good-faith and complete termination of the relationship with the Company. If, at the time of the cessation of service, the Participant anticipates a significant contractual relationship with the Company as a consultant or becoming an employee, then such cessation of service as a Board member does not constitute a good-faith and complete termination of the relationship with the Company.

(s) “Share” means a share of common stock of the Company.

(t) “Share Unit Account” means the account described in Article 7, which is deemed invested in Shares.

(u) “Share Units” means the hypothetical Shares that are credited to the Share Unit Accounts in accordance with Article 7.

(v) “Unforeseeable Emergency” means a severe financial hardship of the Participant, resulting from any of the following:

- (1) an illness or accident of the Participant, his or her spouse or dependent (as defined in Code Section 152(a));
- (2) a loss of the Participant’s property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, as a result of a natural disaster); or
- (3) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, as determined by the Administrator.

(w) “Valuation Date” means each day when the United States financial markets are open for business, as of which the Administrator will determine the value of each Account and will make allocations to Accounts.

Section 2.2. Construction. Wherever any words are used in the masculine, they shall be construed as though they were used in the feminine in all cases where they would so apply; and wherever any words are use in the singular or the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply. Titles of articles and sections are for general information only, and the Plan is not to be construed by reference to such items.

Section 2.3. Severability. In the event any provision of the Plan is held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

ARTICLE 3.
PARTICIPATION

Each Outside Director shall be eligible to become a Participant on the date the individual is first elected to become an Outside Director.

ARTICLE 4.
DEFERRED COMPENSATION

Section 4.1. Deferral Election. An Outside Director may elect, prior to the beginning of each calendar year, to defer all or any part of his compensation as a director which is paid by the Company (in cash or Shares) in the following year. As of the first day of the calendar year for which the election is made, the Participant's deferral election shall be irrevocable except as provided in Section 4.2. A Participant who fails to complete a new election for any calendar year shall be deemed to have elected to continue his most recent election in effect without change.

In the first year an Outside Director is elected to the Board, such individual may elect, within the first thirty (30) days after being elected, to defer all or any portion of his compensation as a director which is otherwise payable by the Company for services provided after the first day of the calendar quarter that follows the date of the election. The election in effect as of the last day of the thirty (30) day election period shall be irrevocable for the remainder of the Plan Year, except as provided in Section 4.2.

Any such compensation deferred pursuant to a valid election shall be credited by the Company to the Participant's Account at the time it would have otherwise been paid to the Participant (whether in cash or Shares).

Section 4.2. Cancellation of Deferral Elections. If a Participant receives a distribution due to an Unforeseeable Emergency and requests cancellation of his or her deferral election under Section 4.1, or if the Administrator determines that such deferral election must be cancelled in order for the Participant to receive a distribution due to an Unforeseeable Emergency, then the Participant's deferral election(s) shall be cancelled. A Participant whose deferral election is cancelled pursuant to this Section 4.2 may make a new deferral election under Sections 4.1 with respect to future fees, unless otherwise prohibited by the Administrator.

Section 4.3. Administration of Deferral Elections. All deferral elections must be made in the form and manner and within such time periods as the Administrator prescribes in order to be effective.

ARTICLE 5. HYPOTHETICAL INVESTMENT OPTIONS

Section 5.1. Investment Election. Amounts credited to a Participant's Account shall reflect the investment experience of the Investment Options selected by the Participant; provided that any deferral of Shares shall automatically be deemed invested in the Share Unit Account. The Participant may make an initial investment election at the time of enrollment in the Plan in whole increments of one percent (1%). A Participant may also elect to reallocate his or her Account, and may elect to allocate any future Deferrals, among the various Investment Options

in whole increments of one percent (1%) from time to time as prescribed by the Administrator; provided that any deferral of Shares shall not be eligible for re-allocation out of the Share Unit Account. Such investment elections shall remain in effect until changed by the Participant. All investment elections shall become effective as soon as practicable after receipt of such election by the Administrator or its designee, and must be made in the form and manner and within such time periods as the Administrator prescribes in order to be effective. In the absence of an effective election, with respect to Participants who make an initial deferral election on or after October 1, 2006, the Participant's Account shall be deemed invested in the default fund specified for the Johnson Controls Inc. Savings and Investment (401k) Plan (or any successor plan thereto). For Participants whose initial deferral election was made prior to October 1, 2006, the default fund is the Share Unit Account.

Deferrals will be deemed invested in an Investment Option as of the date on which the Deferrals would have otherwise been paid to the Participant.

On each Valuation Date, the Administrator or its designee shall credit the deemed investment experience with respect to the selected Investment Options to each Participant's Account.

Notwithstanding anything herein to the contrary, the Company retains the right to allocate actual amounts hereunder without regard to a Participant's request.

Section 5.2. Securities Law Restrictions. Notwithstanding anything to the contrary herein, all elections under Article 5 or 6 by a Participant who is subject to Section 16 of the Exchange Act are subject to review by the Administrator prior to implementation. In accordance with Section 9.3, the Administrator may restrict additional transactions, rescind transactions, or impose other rules and procedures, to the extent deemed desirable by the Administrator in order to comply with the Exchange Act, including, without limitation, application of the review and approval provisions of this Section 5.2 to Participants who are not subject to Section 16 of the Exchange Act.

Section 5.3. Accounts are For Record Keeping Purposes Only. Plan Accounts and the record keeping procedures described herein serve solely as a device for determining the amount of benefits accumulated by a Participant under the Plan, and shall not constitute or imply an obligation on the part of the Company to fund such benefits. In any event, the Company may, in its discretion, set aside assets equal to part or all of such Account balances and invest such assets in Company stock, life insurance or any other investment deemed appropriate. Any such assets, including Company stock, shall be and remain the sole property of the employer that set aside such assets, and a Participant shall have no proprietary rights of any nature whatsoever with respect to such assets.

ARTICLE 6. **DISTRIBUTION**

Section 6.1. General. A Participant, at the time he makes an initial Deferral election under the Plan, may elect the form of distribution with respect to his Account. Such election

shall be made in such form and manner as the Administrator may prescribe, and shall be irrevocable. The election shall specify whether distributions shall be made in a single lump sum or from two (2) to ten (10) annual installments. In the absence of a distribution election, payment shall be made in ten (10) annual installments.

Section 6.2. Time of Distribution.

(a) Separation from Service. Upon a Participant's Separation from Service for any reason, the Participant, or his Beneficiary in the event of his death, shall be entitled to payment of the amount accumulated in such Participant's Account.

(b) Earlier Distribution. Notwithstanding the foregoing, a distribution may be made prior to the date specified in subsection (a) as follows:

(1) If an amount deferred under this Plan is required to be included in income under Code Section 409A prior to the date such amount is actually distributed, a Participant shall receive a distribution, in a lump sum as soon as practicable after the date the Plan fails to meet the requirements of Code Section 409A, of the amount required to be included in the Participant's income as a result of such failure.

(2) If an amount under the Plan is required to be immediately distributed in a lump sum under a domestic relations order within the meaning of Code Section 414(p)(1)(B), it may be distributed according to the terms of such order, provided the Participant holds the Administrator harmless with respect to such distribution. The Plan shall not distribute amounts required to be distributed under a domestic relations order other than in the limited circumstance specifically stated herein.

Section 6.3. Manner of Distribution. The Participant's Account shall be paid in cash in the following manner:

(a) Lump Sum. If payment is to be made in a lump sum, payment shall be made in the first calendar quarter following the calendar quarter in which the Participant's Separation from Service occurs.

The lump sum payment shall equal the balance of the Participant's Account as of the Valuation Date immediately preceding the distribution date.

(b) Installments. If payment is to be made in annual installments, the first annual payment shall be made in the first calendar quarter following the calendar quarter in which the Participant's Separation from Service occurs. The amount of the first annual payment shall equal the value of $1/10^{\text{th}}$ (or $1/9^{\text{th}}$, $1/8^{\text{th}}$, $1/7^{\text{th}}$, etc. depending on the number of installments elected) of the balance of the Participant's Account as of the Valuation Date immediately preceding the distribution date.

All subsequent annual payments shall be made in the first calendar quarter of each subsequent calendar year, and shall be in an amount equal to the value of $1/9^{\text{th}}$ (or $1/8^{\text{th}}$, $1/7^{\text{th}}$, $1/6^{\text{th}}$, etc. depending on the number of installments elected) of the balance of the Participant's Account as of the Valuation Date immediately preceding the distribution date. The final annual installment payment shall equal the then remaining balance of such Account as of the Valuation Date preceding such final payment date.

Notwithstanding the foregoing provisions, if the balance of a Participant's Account at any distribution date is less than fifty thousand dollars (\$50,000) during the payout period, the remaining balance shall be paid in the form of a lump sum on (or as soon as practicable following) such distribution date.

(c) Delay in Payment. Notwithstanding the foregoing, a distribution may be delayed beyond the date it would have otherwise been paid under subsection (a) or (b) in the following circumstances:

(1) If the distribution will violate the terms of a loan agreement or other similar contract to which the Company or an Affiliate, as applicable, is a party, and if any such violation will cause material harm to the Company or Affiliate, the distribution shall be delayed until the first date that a violation will not occur or the violation will not cause material harm to the Company or an Affiliate.

(2) If the distribution will violate the terms of Section 16(b) of the Exchange Act or other Federal securities laws, or any other applicable law, then the distribution shall be delayed until the earliest date on which making the distribution will not violate such law.

Section 6.4. Forfeiture of Distributions. If a Participant engages in Inimical Conduct prior to the distribution of the balance of his Account, the remaining balance of such Account shall be forfeited as of the date the Committee determines the Participant has engaged in Inimical Conduct. The Committee may suspend payments (without liability for interest thereon) pending its determination of whether the Participant has engaged in Inimical Conduct.

Section 6.5. Distribution of Remaining Account Following Participant's Death.

(a) Distribution. In the event of the Participant's death prior to receiving all payments due hereunder, the balance of the Participant's Account shall be paid to the Participant's Beneficiary in a lump sum as soon as practicable after the Participant's death.

(b) Designation of Beneficiary. Each Participant may designate a Beneficiary in such form and manner and within such time periods as the Administrator may prescribe. A Participant can change his beneficiary designation at any time, provided that each beneficiary designation shall revoke the most recent designation, and the last designation received by the Administrator while the Participant is alive shall be given effect. If a Participant designates a Beneficiary without providing in the designation that the Beneficiary must be living at the time of distribution, the designation shall vest in the Beneficiary all of the distribution payable after

the Participant's death, and any distributions remaining upon the Beneficiary's death shall be made to the Beneficiary's estate. If there is no valid beneficiary designation in effect at the time of the Participant's death, in the event the Beneficiary does not survive the Participant, or in the event that the beneficiary designation provides that the Beneficiary must be living at the time of each distribution and such designated Beneficiary does not survive to a distribution date, the Participant's estate will be deemed the Beneficiary and will be entitled to receive payment. If a Participant designates his spouse as a Beneficiary, such beneficiary designation automatically shall become null and void on the date the Administrator receives notice of the Participant's divorce or legal separation.

Section 6.6. Distribution in Event of Unforeseeable Emergency . If requested by a Participant while an Outside Director and if the Administrator determines that an Unforeseeable Emergency has occurred, all or part of the Participant's vested Account may be paid out to the Participant in a cash lump sum. The amount to be distributed to the Participant shall only be such amount as is needed to alleviate the Participant's Unforeseeable Emergency, including any Federal, state or local income taxes or penalties reasonably anticipated to result from the distribution, after taking into account the extent to which the emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets (to the extent such liquidation would not itself cause a severe financial hardship), or by cessation of deferrals under the Plan.

Section 6.7. Tax Withholding . The Company shall have the right to deduct from any deferral or payment made hereunder, or from any other amount due a Participant, the amount of cash and/or Fair Market Value of Shares sufficient to satisfy the Company's or Affiliate's foreign, federal, state or local income tax withholding obligations with respect to such deferral (or vesting thereof) or payment. In addition, if prior to the date of distribution of any amount hereunder, the Federal Insurance Contributions Act (FICA) tax imposed under Code Sections 3101, 3121(a) and 3121(v)(2), where applicable, becomes due, the Participant's Account balance shall be reduced by the amount needed to pay the Participant's portion of such tax.

Section 6.8. Offset . The Company shall have the right to offset from any amount payable hereunder any amount that the Participant owes to the Company or any Affiliate without the consent of the Participant (or his Beneficiary, in the event of the Participant's death).

ARTICLE 7.

RULES WITH RESPECT TO SHARE UNITS

Section 7.1. Valuation of Share Unit Account . When any amounts are to be allocated to a Share Unit Account (whether in the form of Deferrals or amounts that are deemed re-allocated from another Investment Option), such amount shall be converted to whole and fractional Share Units, with fractional units calculated to three decimal places, by dividing the amount to be allocated by the Fair Market Value of a Share on the effective date of such allocation. If any dividends or other distributions are paid on Shares while a Participant has Share Units credited to his Account, such Participant shall be credited with a dividend award equal to the amount of the cash dividend paid or Fair Market Value of other property distributed on one Share, multiplied by the number of Share Units credited to his Share Unit Account on the

date the dividend is declared. The dividend award shall be converted into additional Share Units as provided above using the Fair Market Value of a Share on the date the dividend is paid or distributed. Any other provision of this Plan to the contrary notwithstanding, if a dividend is paid on Shares in the form of a right or rights to purchase shares of capital stock of the Company or any entity acquiring the Company, no additional Share Units shall be credited to the Participant's Share Unit Account with respect to such dividend, but each Share Unit credited to a Participant's Share Unit Account at the time such dividend is paid, and each Share Unit thereafter credited to the Participant's Share Unit Account at a time when such rights are attached to Shares, shall thereafter be valued as of any point in time on the basis of the aggregate of the then Fair Market Value of one Share plus the then Fair Market Value of such right or rights then attached to one Share.

Section 7.2. Transactions Affecting Common Stock. In the event of any merger, share exchange, reorganization, consolidation, recapitalization, stock dividend, stock split or other change in corporate structure of the Company affecting Shares, the Committee may make appropriate equitable adjustments with respect to the Share Units credited to the Share Unit Accounts of each Participant, including without limitation, adjusting the date as of which such units are valued and/or distributed, as the Committee determines is necessary or desirable to prevent the dilution or enlargement of the benefits intended to be provided under the Plan.

Section 7.3. No Shareholder Rights With Respect to Share Units. Participants shall have no rights as a stockholder pertaining to Share Units credited to their Accounts. No individual shall have any right to receive a distribution of Company stock under this Plan. All distributions from the Share Unit Account are made in cash.

ARTICLE 8.

SPECIAL RULES APPLICABLE IN THE EVENT OF A CHANGE OF CONTROL OF THE COMPANY

Section 8.1. Acceleration of Payment of Accounts. Notwithstanding any other provision of this Plan, within 30 days after a Change of Control, each Participant, including Participants receiving installment payments under the Plan, shall be entitled to receive a lump sum payment in cash of all amounts accumulated in such Participant's Account. Such payment shall be made as soon as practicable following the Change of Control.

In determining the amount accumulated in a Participant's Share Unit Account, each Share Unit shall have a value equal to the higher of (a) the highest reported sales price, regular way, of a share of the Company's common stock on the Composite Tape for New York Stock Exchange Listed Stocks (the "Composite Tape") during the sixty-day period prior to the date of the Change of Control of the Company and (b) if the Change of Control of the Company is the result of a transaction or series of transactions described in Section 8.2(a), the highest price per Share of the Company paid in such transaction or series of transactions.

Section 8.2. Definition of a Change of Control. A Change of Control means any of the following events, provided that each such event would constitute a change of control within the meaning of Code Section 409A:

(a) The acquisition, other than from the Company, by any individual, entity or group of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act), including in connection with a merger, consolidation or reorganization, of more than either:

- (1) Fifty percent (50%) of the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or
- (2) Thirty-five (35%) of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Company Voting Securities”),

provided, however, that any acquisition by (x) the Company or any of its subsidiaries, or any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries or (y) any corporation with respect to which, following such acquisition, more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, shall not constitute a Change in Control of the Company; or

(b) Individuals who, as of January 1, 2005, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board during any 12-month period, *provided* that any individual becoming a director subsequent to January 1, 2005, whose election or nomination for election by the Company’s shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board, shall be considered as though such individual were a member of the Incumbent Board; or

(c) A complete liquidation or dissolution of the Company or sale or other disposition of all or substantially all of the assets of the Company other than to a corporation with respect to which, following such sale or disposition, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, immediately prior to such sale or disposition. For purposes hereof, “a sale or other disposition of all or substantially all of the assets of the Company” will not be deemed to have occurred if the sale involves assets having a total gross fair market value of less than forty percent (40%) of the total gross fair market value of all assets of the Company immediately prior to the acquisition. For this purpose, “gross fair market value” means the value of the assets without regard to any liabilities associated with such assets.

For purposes of this Section 8.2, persons will not be considered to be acting as a “group” solely because they purchase or own stock of the Company at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a “group” if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. If a person, including an entity, owns stock in the Company and any other corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in such corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the Company.

ARTICLE 9.

GENERAL PROVISIONS

Section 9.1. Administration .

(a) **General** . The Committee shall have overall authority with respect to administration of the Plan; *provided* that the Administrator shall have responsibility for the general operation and daily administration of the Plan as specified herein. If at any time the Committee shall not be in existence or not be composed of members of the Board who qualify as “non-employee directors”, then the Board shall administer the Plan (with the assistance of the Administrator) and all references herein to the Committee shall be deemed to include the Board. The Committee or Administrator may, in its discretion, delegate any or all of its authority and responsibility; *provided* that the Committee shall not delegate authority and responsibility with respect to non-ministerial functions that relate to the participation by Participants who are subject to Section 16 of the Exchange Act at the time any such delegated authority or responsibility is exercised. To the extent of any such delegation, any references herein to the Committee or Administrator, as applicable, shall be deemed references to such delegatee. Interpretation of the Plan shall be within the sole discretion of the Committee or the Administrator with respect to their respective duties hereunder. If any delegatee of the Committee or the Administrator shall also be a Participant or Beneficiary, any determinations affecting the delegatee’s participation in the Plan shall be made by the Committee or Administrator, as applicable.

(b) **Authority and Responsibility** . In addition to the authority specifically provided herein, the Committee and the Administrator shall have the discretionary authority to take any action or make any determination it deems necessary for the proper administration of its respective duties under the Plan, including but not limited to: (1) prescribe rules and regulations for the administration of the Plan; (2) prescribe forms for use with respect to the Plan; (3) interpret and apply all of the Plan’s provisions, reconcile inconsistencies or supply omissions in the Plan’s terms; and (4) make appropriate determinations, including factual determinations, and calculations. Any action taken by the Committee shall be controlling over any contrary action of the Administrator. The Committee or Administrator may delegate its ministerial duties to a third party and to the extent of such delegation, references to the Committee or Administrator hereunder shall mean such delegatee.

(c) **Decisions Binding** . The Committee’s and the Administrator’s determinations shall be final and binding on all parties with an interest hereunder.

(d) Procedures for Administration. The Committee's determinations must be made by not less than a majority of its members present at the meeting (in person or otherwise) at which a quorum is present, or by written majority consent, which sets forth the action, is signed by the members of the Committee and filed with the minutes for proceedings of the Committee. A majority of the entire Committee shall constitute a quorum for the transaction of business. The Administrator's determinations shall be made in accordance with such procedures it establishes.

(e) Indemnification. Service on the Committee or with the Administrator shall constitute service as a director or officer of the Company so that the Committee and Administrator members shall be entitled to indemnification, limitation of liability and reimbursement of expenses with respect to their Committee or Administrator services to the same extent that they are entitled under the Company's By-laws and Wisconsin law for their services as directors or officers of the Company.

Section 9.2. Participants Rights Unsecured.

(a) Unsecured Claim. The right of a Participant or his Beneficiary to receive a distribution hereunder shall be an unsecured claim, and neither the Participant nor any Beneficiary shall have any rights in or against any amount credited to his Account or any other specific assets of the Company or a subsidiary. The right of a Participant or Beneficiary to the payment of benefits under this Plan shall not be assigned, encumbered or transferred, except as permitted under Section 6.5. The rights of a Participant hereunder are exercisable during the Participant's lifetime only by him or his guardian or legal representative.

(b) Contractual Obligation. The Company may authorize the creation of a trust or other arrangements to assist it in meeting the obligations created under the Plan. However, any liability to any person with respect to the Plan shall be based solely upon any contractual obligations that may be created pursuant to the Plan. No obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company or any subsidiary. Nothing contained in this Plan and no action taken pursuant to its terms shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant or Beneficiary, or any other person.

Section 9.3. Amendment or Termination of the Plan.

(a) Amendment. The Committee may at any time amend the Plan, including but not limited to modifying the terms and conditions applicable to (or otherwise eliminating) Deferrals to be made on or after the amendment date; *provided, however*, that no amendment may reduce or eliminate any Account balance accrued to the date of such amendment (except as such Account balance may be reduced as a result of investment losses allocable to such Account) without a Participant's consent except as otherwise specifically provided herein; and *provided further* that the Board must approve any amendment that expands the class of employees eligible for participation under the Plan, that materially increases the benefits provided hereunder, or , that is required to be approved by the Board by any applicable law or the listing requirements of the national securities exchange upon which the Company's common stock is then traded. In addition, the Administrator may at any time amend the Plan to make administrative changes and changes necessary to comply with applicable law.

(b) Termination. The Committee may terminate the Plan in accordance with the following provisions. Upon termination of the Plan, any deferral elections then in effect shall be cancelled.

(1) The Committee may terminate the Plan within twelve (12) months of a corporate dissolution taxed under Code Section 331, or with the approval of a bankruptcy court pursuant to 11 U.S.C. §503(b)(1)(A), provided that the amounts accrued under the Plan are distributed to the Participants or Beneficiaries, as applicable, in a single sum payment, regardless of any distribution election then in effect, in the later of: (A) the calendar year in which the Plan termination occurs or (B) the first calendar year in which payment is administratively practicable.

(2) The Committee may terminate the Plan at any time during the period that begins thirty (30) days prior and ends twelve (12) months following a Change of Control, provided that all substantially similar arrangements (within the meaning of Code Section 409A) sponsored by the Company are terminated, so that all participants under similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of the date of termination of the arrangements.

(3) The Committee may terminate the Plan at any other time. In such event, the balance of all Accounts will be distributed to all Participants or Beneficiaries, as applicable, in a single sum payment no earlier than twelve (12) months (and no later than twenty-four (24) months) after the date of termination, regardless of any distribution election then in effect. This provision shall not be effective unless all other plans required to be aggregated with this Plan under Code Section 409A are also terminated.

Notwithstanding the foregoing, any payment that would otherwise be paid during the twelve (12)-month period beginning on the Plan termination date pursuant to the terms of the Plan shall be paid in accordance with such terms. In addition, the Company or any Affiliate shall be prohibited from adopting a similar arrangement within five (5) years following the date of the Plan's termination, unless any individual who was a Participant under this Plan is excluded from participating thereunder for such five (5) year period.

Section 9.4. Restrictions to Comply with Applicable Law. All transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 under the Exchange Act. The Committee and the Administrator shall administer the Plan so that transactions under the Plan will be exempt from or comply with Section 16 of the Exchange Act, and shall have the

right to restrict or rescind any transaction, or impose other rules and requirements, to the extent it deems necessary or desirable for such exemption or compliance to be met.

Section 9.5. Administrative Expenses . Costs of establishing and administering the Plan will be paid by the Company.

Section 9.6. Successors and Assigns . This Plan shall be binding upon and inure to the benefit of the Company, its successors and assigns and the Participants and their heirs, executors, administrators and legal representatives.

Section 9.7. Governing Law; Limitation on Actions; Dispute Resolution .

(a) Governing Law . This Plan and the rights and obligations hereunder shall be governed by and construed in accordance with the internal laws of the State of Wisconsin (excluding any choice of law rules that may direct the application of the laws of another jurisdiction).

(b) Arbitration .

(1) Application . If a Participant or Beneficiary brings a claim that relates to benefits under this Plan, regardless of the basis of the claim, such claim shall be settled by final binding arbitration in accordance with the rules of the American Arbitration Association (“AAA”) and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(2) Initiation of Action . Arbitration must be initiated by serving or mailing a written notice of the complaint to the other party. Normally, such written notice should be provided to the other party within one year (365 days) after the day the complaining party first knew or should have known of the events giving rise to the complaint. However, this time frame may be extended if the applicable statute of limitations provides for a longer period of time. If the complaint is not properly submitted within the appropriate time frame, all rights and claims that the complaining party has or may have against the other party shall be waived and void. Any notice sent to the Company shall be delivered to:

Office of General Counsel
Johnson Controls, Inc.
5757 North Green Bay Avenue
P.O. Box 591
Milwaukee, WI 53201-0591

The notice must identify and describe the nature of all complaints asserted and the facts upon which such complaints are based. Notice will be deemed given according to the date of any postmark or the date of time of any personal delivery.

(3) Compliance with Personnel Policies . Before proceeding to arbitration on a complaint, the Participant or Beneficiary must initiate and participate in any complaint resolution procedure identified in the Company’s personnel policies. If

the claimant has not initiated the complaint resolution procedure before initiating arbitration on a complaint, the initiation of the arbitration shall be deemed to begin the complaint resolution procedure. No arbitration hearing shall be held on a complaint until any applicable Company complaint resolution procedure has been completed.

(4) Rules of Arbitration. All arbitration will be conducted by a single arbitrator according to the Employment Dispute Arbitration Rules of the AAA. The arbitrator will have authority to award any remedy or relief that a court of competent jurisdiction could order or grant including, without limitation, specific performance of any obligation created under policy, the awarding of punitive damages, the issuance of any injunction, costs and attorney's fees to the extent permitted by law, or the imposition of sanctions for abuse of the arbitration process. The arbitrator's award must be rendered in a writing that sets forth the essential findings and conclusions on which the arbitrator's award is based.

(5) Representation and Costs. Each party may be represented in the arbitration by an attorney or other representative selected by the party. The Company shall be responsible for its own costs, the AAA filing fee and all other fees, costs and expenses of the arbitrator and AAA for administering the arbitration. The claimant shall be responsible for his attorney's or representative's fees, if any. However, if any party prevails on a statutory claim which allows the prevailing party costs and/or attorneys' fees, the arbitrator may award costs and reasonable attorneys' fees as provided by such statute.

(6) Discovery; Location; Rules of Evidence. Discovery will be allowed to the same extent afforded under the Federal Rules of Civil Procedure. Arbitration will be held at a location selected by the Company. AAA rules notwithstanding, the admissibility of evidence offered at the arbitration shall be determined by the arbitrator who shall be the judge of its materiality and relevance. Legal rules of evidence will not be controlling, and the standard for admissibility of evidence will generally be whether it is the type of information that responsible people rely upon in making important decisions.

(7) Confidentiality. The existence, content or results of any arbitration may not be disclosed by a party or arbitrator without the prior written consent of both parties. Witnesses who are not a party to the arbitration shall be excluded from the hearing except to testify.

ADDENDUM
SPECIAL TRANSITION RULES

Pursuant to the provisions of Notice 2005-1:

1. The Company provided each Participant with an opportunity to file a new deferral election by March 15, 2005, with respect to any director fees that had not yet been paid as of the date the election was filed.
2. The Company provided each Participant with an opportunity to file a new distribution election during calendar year 2005, with respect to his Account. The new distribution election allowed the Participant to select a lump sum or up to ten (10) annual installments for his Account. The distribution election received by the Administrator as of December 31, 2005 is irrevocable.

**JOHNSON CONTROLS, INC.
DIRECTOR SHARE UNIT PLAN**

**ARTICLE 1.
PURPOSE AND DURATION**

Section 1.1. Purpose. The purpose of the Johnson Controls, Inc. Director Share Unit Plan is to advance the Company's growth and success, and to advance the interests of its shareholders, by attracting and retaining well-qualified Outside Directors upon whose judgment the Company is largely dependent for the successful conduct of its operations and by providing such individuals with incentives to put forth maximum effort for the long-term success of the Company's business, thereby aligning their interests more closely with the interests of shareholders.

Section 1.2. Duration. The Plan was originally effective on November 18, 1998. The Plan was most recently amended and restated effective January 1, 2005. The provisions of the Plan as amended and restated apply to each individual with an interest hereunder on or after January 1, 2005.

**ARTICLE 2.
DEFINITIONS AND CONSTRUCTION**

Section 2.1. Definitions. Wherever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

- (a) "Administrator" means the Employee Benefits Policy Committee of the Company.
 - (b) "Affiliate" means each entity that is required to be included in the Company's controlled group of corporations within the meaning of Code Section 414(b), or that is under common control with the Company within the meaning of Code Section 414(c).
 - (c) "Beneficiary" means the person or persons entitled to receive the interest of a Participant in the event of the Participant's death as provided in Article 7.
 - (d) "Board" means the Board of Directors of the Company.
 - (e) "Change of Control" has the meaning ascribed to such term in Section 10.2.
 - (f) "Committee" means the Corporate Governance Committee of the Board; *provided, however*, that if the Corporate Governance Committee does not include two or more "non-employee directors" within the meaning of Rule 16b-3 of the Exchange Act, then the term "Committee" means such other committee appointed by the Board consisting of two or more "non-employee directors."
 - (g) "Company" means Johnson Controls, Inc., a Wisconsin corporation, and any successor thereto as provided in Article 11.
-

(h) “Exchange Act” means the Securities Exchange Act of 1934, as interpreted by regulations and rules issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of the Exchange Act shall be deemed to include reference to any successor provision thereto.

(i) “Fair Market Value” means with respect to a Share, except as otherwise provided herein, the closing sales price of a Share on the New York Stock Exchange as of 4:00 p.m. EST on the date in question (or the immediately preceding trading day, if the date in question is not a trading day), and with respect to any other property, such value as is determined by the Administrator.

(j) “Outside Director” means a member of the Board who is not an officer or employee of the Company or a subsidiary.

(k) “Participant” means each Outside Director who has a Retirement Account under the Plan. Where the context so requires, a Participant also means a former director who is entitled to a benefit hereunder.

(l) “Plan” means the arrangement described herein, as from time to time amended and in effect.

(m) “Retirement Account” means the record keeping account maintained to record the interest of each Participant under the Plan. A Retirement Account is established for record keeping purposes only and not to reflect the physical segregation of assets on the Participant’s behalf, and may consist of such subaccounts or balances as the Administrator may determine to be necessary or appropriate.

(n) “Separation from Service” means the cessation of service as a Board member, for any reason, provided the cessation of service is a good-faith and complete termination of the relationship with the Company. If, at the time of the cessation of service, the Participant anticipates a significant contractual relationship with the Company as a consultant or becoming an employee, then such cessation of service as a Board member does not constitute a good-faith and complete termination of the relationship with the Company.

(o) “Share” means a share of the Company’s common stock, \$0.16 par value.

(p) “Share Units” means the hypothetical Shares that are credited to the Participant’s Retirement Account in accordance with Article 5.

(q) “Total and Permanent Disability” means the Participant’s inability to engage in any substantial gainful activity as a result of a medically-determinable physical or mental impairment which can be expected to result in death or which can be expected to last for a continuous period of at least twelve (12) months, as determined by the Administrator. The Administrator may require the Participant to submit such medical evidence or to undergo a medical examination by a doctor selected by the Administrator as the Administrator determines is necessary in order to make a determination hereunder.

(r) “Unforeseeable Emergency” means a severe financial hardship of the Participant, resulting from any of the following:

- (1) an illness or accident of the Participant, his or her spouse or dependent (as defined in Code Section 152(a));
- (2) a loss of the Participant’s property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, as a result of a natural disaster); or
- (3) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, as determined by the Administrator.

(s) “Valuation Date” means each day when the United States financial markets are open for business, as of which the Administrator will determine the value of each Retirement Account.

Section 2.2. Construction . Wherever any words are used in the masculine, they shall be construed as though they were used in the feminine in all cases where they would so apply; and wherever any words are use in the singular or the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply. Titles of articles and sections are for general information only, and the Plan is not to be construed by reference to such items.

Section 2.3. Severability . In the event any provision of the Plan is held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the said illegal or invalid provision had not been included.

ARTICLE 3. **ADMINISTRATION**

Section 3.1. General . The Committee shall have overall authority with respect to administration of the Plan; *provided* that the Administrator shall have responsibility for the general operation and daily administration of the Plan as specified herein. If at any time the Committee shall not be in existence or not be composed of members of the Board who qualify as “non-employee directors”, then the Board shall administer the Plan (with the assistance of the Administrator) and all references herein to the Committee shall be deemed to include the Board.

Section 3.2. Authority . In addition to the authority specifically provided herein, the Committee and the Administrator shall have full power and discretionary authority to take any action or make any determination it deems necessary for the proper administration of its respective duties under the Plan, including but not limited to the power and authority to: (a) interpret the Plan; (b) correct errors, supply omissions or reconcile inconsistencies in the Plan’s terms; (c) establish, amend or waive rules and regulations, and appoint such agents, as it deems appropriate for the Plan’s administration; and (d) make any other determinations, including

factual determinations, and take any other action as it determines is necessary or desirable for the Plan's administration. Any action taken by the Committee shall be controlling over any contrary action of the Administrator. The Committee or Administrator may delegate its ministerial duties to a third party and to the extent of such delegation, references to the Committee or Administrator herein shall mean such delegatee.

Section 3.3. Decision Binding. The Committee's and the Administrator's determinations and decisions made pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive and binding on all persons who have an interest in the Plan, and such determinations and decisions shall not be reviewable.

Section 3.4. Procedures for Administration. The Committee's determinations must be made by not less than a majority of its members present at the meeting (in person or otherwise) at which a quorum is present, or by written majority consent, which sets forth the action, is signed by the members of the Committee and filed with the minutes for proceedings of the Committee. A majority of the entire Committee shall constitute a quorum for the transaction of business. The Administrator's determinations shall be made in accordance with such procedures it establishes.

Section 3.5. Indemnification. Neither the Committee, nor the Administrator, nor any member thereof shall be liable for any act, omission, interpretation, construction or determination made in connection with the Plan in good faith and the members of the Committee and the Administrator shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including attorneys' fees) arising therefrom to the full extent permitted by law and under any directors' and officers' liability insurance that may be in effect from time to time.

Section 3.6. Restrictions to Comply with Applicable Law. Transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 under the Exchange Act. The Committee and the Administrator shall administer the Plan so that transactions under the Plan will be exempt from or comply with Section 16 of the Exchange Act, and shall have the right to restrict or rescind any transaction, or impose other rules and requirements, to the extent it deems necessary or desirable for such exemption or compliance to be met.

ARTICLE 4. **PARTICIPATION**

Each Outside Director shall automatically become a Participant on the date the individual is first elected to become an Outside Director. No new Participants shall be added to the Plan after October 1, 2006.

ARTICLE 5. **RETIREMENT ACCOUNTS**

Section 5.1. Establishment of Retirement Account. Each Participant shall have a Retirement Account established under this Plan on his behalf. A Participant's Retirement Account shall be credited with "Share Units" and otherwise subject to adjustment as follows:

(a) Conversion of Accrued Benefits. For each Outside Director of the Company as of December 1, 1998, the Administrator shall calculate the value of such Outside Director's accrued benefits under the Company's Director Retirement Plan as of September 30, 1998. Each such Outside Director's Retirement Account shall be credited with a number of Share Units equal to the result obtained by (i) dividing (A) the value of such Outside Director's accrued benefits under the Company's Director Retirement Plan as of September 30, 1998 by (B) the Fair Market Value of a Share as of the first trading day in December 1998.

(b) Annual Credit of Share Units. On the date of each regular meeting of the Board held in November, the Retirement Account of each Participant who is then an Outside Director shall be credited with a number of additional Share Units equal to the result obtained by (i) dividing (A) the amount determined for such year by the Committee by (B) the Fair Market Value of a Share on such date. Effective October 1, 2006, no additional Share Units shall be credited to a Participant's Retirement Account under this subsection (b).

Section 5.2. Interim Election. Any Outside Director whose election to the Board is first effective at any time other than the regular meeting of the Board held in November shall have credited to his or her Retirement Account a proportionate share of the Annual Credit at the time of effectiveness of his election. Such credit shall be based on the Fair Market Value of a Share on the date on which his election is effective. Effective October 1, 2006, no Share Units shall be credited to a Participant's Retirement Account under this Section 5.2.

Section 5.3. Dividends. Whenever the Company declares a dividend on its Shares, in cash or in property, at a time when Participants have Share Units credited to their Retirement Accounts, a dividend award shall be made to all such Participants as of the date of payment of the dividend. The dividend award for a Participant shall be determined by multiplying the Share Units credited to the Participant's Account as of the date the dividend is declared by the amount or Fair Market Value of the dividend paid or distributed on one Share. The dividend award shall be credited to the Participant's Retirement Account by converting such award into Share Units by dividing the amount of the dividend award by the Fair Market Value of a Share on the date the dividend is paid. Any other provision of this Plan to the contrary notwithstanding, if a dividend is declared on Shares in the form of a right or rights to purchase shares of capital stock of the Company or of any entity acquiring the Company, such dividend award shall not be credited to the Participant's Retirement Account, but each Share Unit credited to a Participant's Retirement Account at the time such dividend is paid, and each Share Unit thereafter credited to the Participant's Retirement Account at a time when such rights are attached to Shares, shall thereafter be valued as of any point in time on the basis of the aggregate of the then Fair Market Value of one Share plus the then Fair Market Value of such right or rights then or previously attached to one Share.

ARTICLE 6.

RULES WITH RESPECT TO SHARE UNITS

Section 6.1. Transactions Affecting Common Stock. In the event of any merger, share exchange, reorganization, consolidation, recapitalization, stock dividend, stock split or other change in corporate structure of the Company affecting Shares, the Administrator may make appropriate equitable adjustments with respect to the Share Units credited to the Retirement Account of each Participant, including without limitation, adjusting the date as of which such

units are valued and/or distributed, as the Administrator determines is necessary or desirable to prevent the dilution or enlargement of the benefits intended to be provided under the Plan.

Section 6.2. No Shareholder Rights With Respect to Share Units . Participants shall have no rights as a stockholder pertaining to Share Units credited to their Retirement Accounts. No individual shall have any right to receive a distribution of Shares under this Plan. All distributions under the Plan are made in cash.

ARTICLE 7. **PAYMENT**

Section 7.1. Distributions .

(a) Participant's Separation from Service . A Participant's Retirement Account shall become payable upon the Participant's Separation from Service, whether by death, disability, retirement or for any other reason.

(b) Earlier Distribution . Notwithstanding the foregoing, a distribution may be made prior to the date specified in subsection (a) as follows:

(1) If an amount deferred under this Plan is required to be included in income under Code Section 409A prior to the date such amount is actually distributed, a Participant shall receive a distribution, in a lump sum as soon as practicable after the date the Plan fails to meet the requirements of Code Section 409A, of the amount required to be included in the Participant's income as a result of such failure.

(2) If an amount under the Plan is required to be distributed under a domestic relations order within the meaning of Code Section 414(p)

(1)(B), it may be distributed according to the terms of such order.

Section 7.2. Election of Form of Distribution . A Participant, within the first thirty (30) days following the date he commences participation in the Plan, shall make a distribution election with respect to his Retirement Account. Such election shall be made in such form and manner and within such time periods as the Administrator may prescribe, and shall be irrevocable. The election shall specify whether distributions shall be made in a single lump sum or annual installments of from two (2) to ten (10) years. If no valid election is in effect, distribution shall be made in ten (10) annual installments.

Section 7.3. Manner of Distribution . A Participant's Retirement Account shall be paid or begin to be paid in cash as follows:

(a) If payment is to be made in a lump sum, payment shall be made in the first calendar quarter of the year following the year in which the Participant's Separation from Service occurs, and shall be in an amount equal to the balance of the Participant's Retirement Account as of the Valuation Date immediately preceding the distribution date.

(b) If payment is to be made in annual installments, the first annual payment shall be made in the first calendar quarter of the year following the year in which the Participant's Separation from Service occurs, and shall equal the value of 1/10th (or 1/9th, 1/8th, 1/7th, etc. depending on the number of installments elected) of the balance of the Participant's Retirement Account as of the Valuation Date immediately preceding the distribution date. A second annual payment shall be made in the first calendar quarter of the second year after the year in which the Participant's Separation from Service occurs, and shall equal the value of 1/9th (or 1/8th, 1/7th, 1/6th, etc. depending on the number of installments elected) of the balance of the Participant's Retirement Account as of the Valuation Date immediately preceding the distribution date. Each succeeding installment payment (if any) shall be determined in a similar manner, until the final installment which shall equal the then remaining balance of such account as of the Valuation Date immediately preceding the final distribution date.

Notwithstanding the foregoing provisions, if the balance of a Participant's Retirement Account at any distribution date is less than \$50,000 during the payout period, the remaining balance shall be paid in the form of a lump sum on (or as soon as practicable following) such distribution date.

(c) Delay in Payment. Notwithstanding the foregoing, a distribution may be delayed beyond the date it would have otherwise been paid under subsection (a) or (b) in the following circumstances:

(1) If the distribution will violate the terms of a loan agreement or other similar contract to which the Company or an Affiliate, as applicable, is a party, and if any such violation will cause material harm to the Company or Affiliate, the distribution shall be delayed until the first date that a violation will not occur or the violation will not cause material harm to the Company or an Affiliate.

(2) If the distribution will violate the terms of Section 16(b) of the Exchange Act or other Federal securities laws, or any other applicable law, then the distribution shall be delayed until the earliest date on which making the distribution will not violate such law.

Section 7.4. Distribution in Event of Unforeseeable Emergency. If requested by a Participant while an Outside Director and if the Administrator determines that an Unforeseeable Emergency has occurred, all or part of the Participant's Retirement Account may be paid out to the Participant in a cash lump sum. The amount to be distributed to the Participant shall only be such amount as is needed to alleviate the Participant's Unforeseeable Emergency, including any Federal, state or local income taxes or penalties reasonably anticipated to result from the distribution, after taking into account the extent to which the emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, or by liquidation of the Participant's assets (to the extent such liquidation would not itself cause a severe financial hardship).

Section 7.5. Distribution of Remaining Account Following Participant's Death.

(a) Distribution. In the event of the Participant's death prior to receiving all payments due hereunder, the balance of the Participant's Retirement Account shall be paid to the Participant's Beneficiary in a lump sum as soon as practicable after the Participant's death.

(b) Designation of Beneficiary. Each Participant may designate a Beneficiary in such form and manner and within such time periods as the Administrator may prescribe. A Participant can change his beneficiary designation at any time, provided that each beneficiary designation shall revoke the most recent designation, and the last designation received by the Administrator while the Participant is alive shall be given effect. If a Participant designates a Beneficiary without providing in the designation that the Beneficiary must be living at the time of distribution, the designation shall vest in the Beneficiary all of the distribution payable after the Participant's death, and any distributions remaining upon the Beneficiary's death shall be made to the Beneficiary's estate. If there is no valid beneficiary designation in effect at the time of the Participant's death, if the Beneficiary does not survive the Participant, or if the beneficiary designation provides that the Beneficiary must be living at the time of each distribution and such designated Beneficiary does not survive to a distribution date, the Participant's estate will be deemed the Beneficiary and will be entitled to receive payment. If a Participant designates his spouse as a Beneficiary, such beneficiary designation automatically shall become null and void on the date the Administrator receives notice of the Participant's divorce or legal separation.

Section 7.6. Tax Withholding. The Company shall have the right to deduct from any deferral or payment made hereunder, or from any other amount due a Participant, the amount of cash sufficient to satisfy the Company's or Affiliate's foreign, federal, state or local income tax withholding obligations with respect to such deferral or payment. In addition, if prior to the date of distribution of any amount hereunder, the Federal Insurance Contributions Act (FICA) tax imposed under Code Sections 3101, 3121(a) and 3121(v)(2), where applicable, becomes due, the Participant's Retirement Account balance shall be reduced by the amount needed to pay the Participant's portion of such tax.

Section 7.7. Offset. The Company shall have the right to offset from any amount payable hereunder any amount that the Participant owes to the Company or any Affiliate without the consent of the Participant (or his Beneficiary, in the event of the Participant's death).

ARTICLE 8.
TERMS AND CONDITIONS

Section 8.1. No Funding. No stock, cash or other property will be deliverable to a Participant or his or her Beneficiary in respect of the Participant's Retirement Account until the date or dates identified pursuant to Article 7, and all Retirement Accounts shall be reflected in one or more unfunded accounts established for the Participant by the Company. Payment of the Company's obligation will be from general funds, and no special assets (stock, cash or otherwise) have been or will be set aside as security for this obligation, unless otherwise provided by the Administrator.

Section 8.2. No Transfers . Except as permitted by Section 7.11, a Participant's rights to payments under this Plan are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance by a Participant or his Beneficiary, or garnishment by a Participant's creditors or the creditors of his or her beneficiaries, whether by operation of law or otherwise, and any attempted sale, transfer, assignment, pledge, or encumbrance with respect to such payment shall be null and void, and shall be without legal effect and shall not be recognized by the Company.

Section 8.3. Unsecured Creditor . The right of a Participant or Beneficiary to receive payments under this Plan is that of a general, unsecured creditor of the Company, and the obligation of the Company to make payments constitutes a mere promise by the Company to pay such benefits in the future. Further, the arrangements contemplated by this Plan are intended to be unfunded for tax purposes and for purposes of Title I of ERISA.

Section 8.4. Retention as Director . Nothing contained in the Plan shall interfere with or limit in any way the right of the shareholders of the Company to remove any Director from the Board, nor confer upon any Director any right to continue in the service of Company as a Director.

ARTICLE 9.

TERMINATION AND AMENDMENT OF PLAN

Section 9.1. Amendment . The Committee may at any time amend the Plan; *provided, however* , that (a) the Committee may not amend the Plan more than once every six months, other than amendments the Committee deems necessary or advisable to assure the conformity of the Plan with any requirements of state and federal law or regulations now or hereafter in effect, and (b) subject to the provisions of Section 9.2, no amendment shall affect adversely any of the rights of any Outside Director, without such Outside Director's consent, under any election theretofore in effect under the Plan; *provided further that* the Board must approve any amendment that expands the class of individuals eligible for participation under the Plan, that materially increases the benefits provided hereunder, or that is required to be approved by the Board by any applicable law or the listing requirements of the national securities exchange upon which the Company's common stock is then traded. In addition, the Administrator may at any time amend the Plan to make administrative changes and changes necessary to comply with applicable law.

Section 9.2. Termination . The Committee may terminate the Plan in accordance with the following provisions.

(1) The Committee may terminate the Plan within twelve (12) months of a corporate dissolution taxed under Code Section 331, or with the approval of a bankruptcy court pursuant to 11 U.S.C. §503(b)(1)(A), provided that the amounts accrued under the Plan are distributed to the Participants or Beneficiaries, as applicable, in a single sum payment, regardless of any distribution election then in effect, in the later of: (A) the calendar year in which the Plan termination occurs or (B) the first calendar year in which payment is administratively practicable.

(2) The Committee may terminate the Plan at any time during the period that begins thirty (30) days prior and ends twelve (12) months following a Change of Control, provided that all substantially similar arrangements (within the meaning of Code Section 409A) sponsored by the Company are terminated, so that all participants under similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of the date of termination of the arrangements.

(3) The Committee may terminate the Plan at any other time. In such event, the balance of all Accounts will be distributed to all Participants or Beneficiaries, as applicable, in a single sum payment no earlier than twelve (12) months (and no later than twenty-four (24) months) after the date of termination, regardless of any distribution election then in effect. This provision shall not be effective unless all other plans required to be aggregated with this Plan under Code Section 409A are also terminated. Notwithstanding the foregoing, any payment that would otherwise be paid during the twelve (12)-month period beginning on the Plan termination date pursuant to the terms of the Plan shall be paid in accordance with such terms. In addition, the Company or any Affiliate shall be prohibited from adopting a similar arrangement within five (5) years following the date of the Plan's termination, unless any individual who was a Participant under this Plan is excluded from participating thereunder for such five (5) year period.

ARTICLE 10.

CHANGE OF CONTROL

Section 10.1. Acceleration of Payment. Anything in this Plan to the contrary notwithstanding, each Participant's Retirement Account shall be paid in cash in a lump sum within thirty (30) days following the occurrence of a Change of Control. The amount of the cash payment shall be determined by multiplying the number of Share Units in the Retirement Account by the Fair Market Value of a Share as of the most recent Valuation Date preceding the occurrence of the Change of Control.

In determining the amount accumulated in a Participant's Retirement Account, each Share Unit shall have a value equal to the higher of

- (a) the highest reported sales price, regular way, of a share of the Company's common stock on the Composite Tape for New York Stock Exchange Listed Stocks (the "Composite Tape") during the sixty-day period prior to the date of the Change of Control of the Company and
- (b) if the Change of Control of the Company is the result of a transaction or series of transactions described in Section 10.2(a), the highest price per Share of the Company paid in such transaction or series of transactions.

Section 10.2. Definition of a Change of Control. A Change of Control means any of the following events, provided that each such event would constitute a change of control within the meaning of Code Section 409A:

(a) The acquisition, other than from the Company, by any individual, entity or group of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act), including in connection with a merger, consolidation or reorganization, of more than either:

- (1) Fifty percent (50%) of the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or
- (2) Thirty-five (35%) of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Company Voting Securities”),

provided, however, that any acquisition by (x) the Company or any of its subsidiaries, or any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries or (y) any corporation with respect to which, following such acquisition, more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, shall not constitute a Change in Control of the Company; or

(b) Individuals who, as of January 1, 2005, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board during any 12-month period, *provided* that any individual becoming a director subsequent to January 1, 2005, whose election or nomination for election by the Company’s shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board, shall be considered as though such individual were a member of the Incumbent Board; or

(c) A complete liquidation or dissolution of the Company or sale or other disposition of all or substantially all of the assets of the Company other than to a corporation with respect to which, following such sale or disposition, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, immediately prior to such sale or disposition. For purposes hereof, “a sale or other disposition of all or substantially all of the assets of the Company” will not be deemed to

have occurred if the sale involves assets having a total gross fair market value of less than forty percent (40%) of the total gross fair market value of all assets of the Company immediately prior to the acquisition. For this purpose, “gross fair market value” means the value of the assets without regard to any liabilities associated with such assets.

(d) For purposes of this Section 10.2, persons will not be considered to be acting as a “group” solely because they purchase or own stock of the Company at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a “group” if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. If a person, including an entity, owns stock in the Company and any other corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in such corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the Company.

ARTICLE 11.

SUCCESSORS

All obligations of the Company under the Plan shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company. This Plan shall be binding upon and inure to the benefit of the Participants, Beneficiaries, and their heirs, executors, administrators and legal representatives.

ARTICLE 12.

DISPUTE RESOLUTION

Section 12.1. Governing Law . This Plan and the rights and obligations hereunder shall be governed by and construed in accordance with the internal laws of the State of Wisconsin (excluding any choice of law rules that may direct the application of the laws of another jurisdiction).

Section 12.2. Arbitration .

(a) Application . Notwithstanding anything to the contrary herein, if a Participant or Beneficiary brings a claim that relates to benefits under this Plan, regardless of the basis of the claim, such claim shall be settled by final binding arbitration in accordance with the rules of the American Arbitration Association (“AAA”) and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(b) Initiation of Action . Arbitration must be initiated by serving or mailing a written notice of the complaint to the other party. Normally, such written notice should be provided to the other party within one year (365 days) after the day the complaining party first knew or should have known of the events giving rise to the complaint. However, this time frame may be extended if the applicable statute of limitation provides for a longer period of time. If the complaint is not properly submitted within the appropriate time frame, all rights and claims that

the complaining party has or may have against the other party shall be waived and void. Any notice sent to the Company shall be delivered to:

Office of General Counsel
Johnson Controls, Inc.
5757 North Green Bay Avenue
P.O. Box 591
Milwaukee, WI 53201-0591

The notice must identify and describe the nature of all complaints asserted and the facts upon which such complaints are based. Notice will be deemed given according to the date of any postmark or the date of time of any personal delivery.

(c) Compliance with Personnel Policies. Before proceeding to arbitration on a complaint, the Participant or Beneficiary must initiate and participate in any complaint resolution procedure identified in the Company's personnel policies. If the claimant has not initiated the complaint resolution procedure before initiating arbitration on a complaint, the initiation of the arbitration shall be deemed to begin the complaint resolution procedure. No arbitration hearing shall be held on a complaint until any applicable Company complaint resolution procedure has been completed.

(d) Rules of Arbitration. All arbitration will be conducted by a single arbitrator according to the Employment Dispute Arbitration Rules of the AAA. The arbitrator will have authority to award any remedy or relief that a court of competent jurisdiction could order or grant including, without limitation, specific performance of any obligation created under policy, the awarding of punitive damages, the issuance of any injunction, costs and attorney's fees to the extent permitted by law, or the imposition of sanctions for abuse of the arbitration process. The arbitrator's award must be rendered in a writing that sets forth the essential findings and conclusions on which the arbitrator's award is based.

(e) Representation and Costs. Each party may be represented in the arbitration by an attorney or other representative selected by the party. The Company shall be responsible for its own costs, the AAA filing fee and all other fees, costs and expenses of the arbitrator and AAA for administering the arbitration. The claimant shall be responsible for his attorney's or representative's fees, if any. However, if any party prevails on a statutory claim which allows the prevailing party costs and/or attorneys' fees, the arbitrator may award costs and reasonable attorneys' fees as provided by such statute.

(f) Discovery; Location; Rules of Evidence. Discovery will be allowed to the same extent afforded under the Federal Rules of Civil Procedure. Arbitration will be held at a location selected by the Company. AAA rules notwithstanding, the admissibility of evidence offered at the arbitration shall be determined by the arbitrator who shall be the judge of its materiality and relevance. Legal rules of evidence will not be controlling, and the standard for admissibility of evidence will generally be whether it is the type of information that responsible people rely upon in making important decisions.

(g) Confidentiality. The existence, content or results of any arbitration may not be disclosed by a party or arbitrator without the prior written consent of both parties. Witnesses who are not a party to the arbitration shall be excluded from the hearing except to testify.

JOHNSON CONTROLS, INC.

12,815,809 Shares

Common Stock

JOHNSON CONTROLS, INC. 2000 STOCK OPTION PLAN

January 1, 2000

(As Amended through January 1, 2007)

This document sets forth information relating to participation in the Johnson Controls, Inc. 2000 Stock Option Plan (the “Plan”) and to shares of our common stock that we are offering under the Plan. Each share of our common stock issued under the Plans will include one right to purchase our common stock. In this document, unless the context otherwise requires, all references to our common stock includes the accompanying rights. We are offering participation in the Plan to our officers and other key employees and those of our subsidiaries.

This document will be accompanied or preceded by our latest Annual Report to Shareholders. If you have previously received a copy of our Annual Report to Shareholders but wish to have another copy, then we will furnish an additional copy without charge upon written or oral request to us.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities offered pursuant to the Plan or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. The information in this document may only be accurate on the date of the document. This document may only be used where it is legal to sell these securities.

This document may not be used for resales of shares acquired under the Plan.

THE COMPANY

We are a global market leader in automotive systems and facility management and control. In the automotive market, we are a major supplier of seating and interior systems, and batteries. For nonresidential facilities, we provide building control systems and services, energy management and integrated facility management. Our principal executive offices are located at 5757 North Green Bay Avenue, P.O. Box 591, Milwaukee, Wisconsin 53201. Our telephone number is (414) 524-1200.

1. **Establishment** . JOHNSON CONTROLS, INC. (the “Company”) hereby establishes a stock option plan for certain officers and other key employees, as described herein, which shall be known as the JOHNSON CONTROLS, INC. 2000 STOCK OPTION PLAN (the “Plan”). It is intended that certain of the stock options issued pursuant to the Plan may constitute incentive stock options within the meaning of Section 422 of the Internal Revenue Code (“Incentive Stock Options”) and the remainder of the options issued pursuant to the Plan shall constitute nonqualified options. Incentive Stock Options and nonqualified stock options are hereinafter jointly referred to as “Options.” The Committee may also award stock appreciation rights apart from Options issued pursuant to the Plan.

2. **Purpose** . The purpose of the Plan is to induce certain officers and other key employees to remain in the employ of the Company or its subsidiaries and to encourage such employees to secure or increase on reasonable terms their stock ownership in the Company. The Board of Directors of the Company (the “Board of Directors”) believes that the Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by those who are responsible for shaping and carrying out the long-range plans of the Company and securing its continued growth and financial success.

3. **Effective Date of the Plan** . The Plan was adopted by the Board of Directors on November 17, 1999, and, subject to the approval of the Plan by the shareholders of the Company within twelve months of this date, the effective date of the Plan will be January 1, 2000. Any and all Options granted prior to shareholder approval shall be subject to such approval.

4. **Stock Subject to the Plan** . Subject to adjustment in accordance with the provisions of this paragraph and paragraph 17, the total number of shares of the common stock of the Company (“Common Stock”) available for awards during the term of the Plan shall be an amount calculated as follows: (a) fifteen percent (15%) of the number of shares of Common Stock outstanding upon the effective date of the Plan minus (b) the number of shares of Common Stock subject to awards made under any prior stock option plan of the Company (a “Prior Plan”) and outstanding upon the effective date of the Plan (“Prior Plan Awards”). Shares of Common Stock to be delivered upon exercise of Options or settlement of stock appreciation rights under the Plan shall be made available from presently authorized but unissued Common Stock or authorized and issued shares of Common Stock reacquired and held as treasury shares, or a combination thereof. If any Option or stock appreciation right shall be canceled, expire or terminate without having been exercised in full, or to the extent a stock appreciation right is settled in cash, the shares of Common Stock allocable to the unexercised, canceled, forfeited portion of such Option or stock appreciation right, or portion of such stock appreciation right which is settled in cash, shall again be available for the purpose of the Plan. The surrender of

any Options (and the surrender of any related stock appreciation rights granted under paragraph 16) in connection with the receipt of stock appreciation rights as provided in paragraph 16 shall, as to such Options, have the same effect under this paragraph 4 as the cancellation or termination of such Options without having been exercised. If any stock appreciation rights are granted under the Plan (including any grant in connection with the surrender of outstanding Options), as provided in paragraph 16, and shares of Common Stock may be issuable in connection with such stock appreciation rights, then the grant of such stock appreciation rights shall be deemed to have the same effect under this paragraph 4 as the grant of Options; provided, however, if any such stock appreciation rights shall be canceled, expire or terminate without having been exercised in full, or to the extent a stock appreciation right is settled in cash, the shares of Common Stock allocable to the unexercised, canceled, forfeited portion of such stock appreciation right, or portion of such stock appreciation right which is settled in cash, shall again be available for the purpose of the Plan. If the exercise price of any Option granted under the Plan is satisfied by tendering shares of Common Stock to the Company (by either actual delivery or by attestation), only the number of shares of Common Stock issued net of the shares of Common Stock tendered shall be deemed delivered for purposes of determining the maximum number of shares of Common Stock available for delivery under the Plan. If any Participant satisfies the Company's withholding tax requirements upon the exercise of an Option by properly electing to have the Company withhold shares of Common Stock, then the shares of Common Stock so withheld shall again be available for the purpose of the Plan, except that such shares shall not be available for the granting of Incentive Stock Options. After the effective date of the Plan, if any event occurs as a result of which shares of Common Stock subject to Prior Plan Awards would again become available for the purpose of the relevant Prior Plan if the Prior Plan were still in effect and the Company could grant awards under the Prior Plan, then such shares shall be available for the purpose of the Plan rather than such Prior Plan (subject to any applicable limitation on the use of such shares for the granting of Incentive Stock Options) and thereby increase the shares available under the Plan as determined under the first sentence of this paragraph.

5. Administration .

- (a) The Plan shall be administered by the Compensation Committee (the "Committee") consisting of not less than three members of the Board of Directors appointed from time to time by the Board of Directors. No member of the Committee shall be, nor at any time during the preceding one-year period have been, eligible to receive stock, stock options or stock appreciation rights of the Company or of its subsidiaries pursuant to the Plan or any other plan of the Company or its subsidiaries, other than a plan for directors of the Company who are not officers or employees of the Company which provides for automatic grants without exercise of discretion by any member of the Board of Directors, or by any officer or employee of the Company.
- (b) Subject to the express provisions of the Plan, the Committee shall have authority to establish such rules and regulations as it deems necessary or advisable for the proper administration of the Plan, and in its discretion, to determine the individuals (the "Participants") to whom, and the time or times at which, Options and stock appreciation rights shall be granted, the type of Options, the periods of

Options or stock appreciation rights, limitations on exercise of Options or stock appreciation rights, and the number of shares to be subject to each Option or award of stock appreciation rights. In making such determinations, the Committee may take into account the nature of the services rendered by the respective employees, their present and potential contributions to the success of the Company or its subsidiaries, and such other factors as the Committee, in its discretion, shall deem relevant.

- (c) Subject to the express provisions of the Plan, the Committee shall also have complete authority to interpret the Plan, to prescribe, amend, and rescind rules and regulations relating to it, to determine the terms and provisions of the respective Option Agreements (which need not be identical) and to make all other determinations necessary or advisable for the administration of the Plan. The Committee's determinations on the matters referred to in this paragraph 5 shall be conclusive and binding upon all parties.
- (d) Neither the Committee nor any member thereof shall be liable for any act, omission, interpretation, construction or determination made in connection with the Plan in good faith, and the members of the Committee shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including attorneys fees) arising therefrom to the full extent permitted by law and under any directors and officers liability insurance that may be in effect from time to time.
- (e) A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by a majority of the Committee without a meeting, shall be the acts of the Committee.
- (f) The Chief Executive Officer of the Company shall have the same authority as the Committee with respect to the grant and administration of awards of options and stock appreciation rights made to (or to be made to) individuals eligible for the Plan, excluding officers and employees who are subject to the provisions of Section 16 of the Exchange Act or who are covered by Section 162(m) of the Code at the time in question.

6. **Eligibility** . Options and stock appreciation rights may be granted to officers and other key employees of the Company and of any of its present and future subsidiaries. The maximum number of shares of Common Stock covered by Options which may be granted to any Participant within any two consecutive calendar year periods shall not exceed 500,000 shares in the aggregate. No Option or stock appreciation right shall be granted to any person who owns, directly or indirectly, shares of stock possessing more than 10% of the total combined voting power of all classes of stock of the Company. A director of the Company or of a subsidiary who is not also an employee of the Company or of a subsidiary will not be eligible to receive any Option or stock appreciation right hereunder.

7. **Rights of Employees** . Nothing in this Plan or in any Option or stock appreciation right shall interfere with or limit in any way the right of the Company and any of its subsidiaries to terminate any Participant's or employee's employment at any time, nor confer upon any Participant or employee any right to continue in the employ of the Company and its subsidiaries. No employee shall have any right to be granted an award under this Plan, even if an award was granted to such employee at any prior time, or if a similarly-situated employee is or was granted an award under similar circumstances.

8. **Option Agreements** . All Options and stock appreciation rights granted under the Plan shall be evidenced by written agreements (an "Option Agreement") in such form or forms as the Committee shall determine.

9. **Option Price** . The per share Option price for Options and the per share grant price for stock appreciation rights granted under paragraph 16, as determined by the Committee, shall be an amount not less than 100% of the fair market value of the stock on the date such Options or stock appreciation rights are granted (or, if the Committee so determines, in the case of any stock appreciation right granted under paragraph 16 upon the surrender of any outstanding Option, on the date of grant of such Option). The fair market value of a share of stock on any date shall be the average of the highest and lowest market prices of sales of the Common Stock on that date, or on the next preceding trading day if such date was not a trading day as reported on the New York Stock Exchange or as otherwise determined by the Committee. However, effective January 1, 2007, in connection with an exercise of options, to the extent the Participant sells any Shares acquired upon such exercise in a market transaction on the date of exercise, the sale price(s) for any such Shares shall be the fair market value.

10. **Option Period** . The term of each Option and stock appreciation right shall be as determined by the Committee but in no event shall the term of an Option or stock appreciation right exceed a period of ten (10) years from the date of its grant. Each Option and stock appreciation right granted hereunder may be granted at any time on or after the effective date of the Plan, and prior to its termination, provided that no Option or stock appreciation right may be granted later than ten years after the date this Plan is adopted. The Committee shall determine whether any Option or stock appreciation right shall become exercisable in cumulative or non-cumulative installments or in full at any time. An exercisable Stock Option or stock appreciation right, or portion thereof, may be exercised in whole or in part only with respect to whole shares of Common Stock.

11. **Maximum Value of Incentive Stock Options** . The aggregate fair market value (as defined in paragraph 9) of the Common Stock for which any Incentive Stock Options are exercisable for the first time by a Participant during any calendar year under the Plan or any other plan of the Company or any subsidiary shall not exceed \$100,000. To the extent the fair market value of the shares of Common Stock attributable to Incentive Stock Options first exercisable in any calendar year exceeds \$100,000, the excess portion of the Incentive Stock Options shall be treated as nonqualified options.

12. **Transferability of Option or Stock Appreciation Right** . No Option or stock appreciation right granted hereunder shall be transferable other than options specifically

designated by the Compensation Committee as such and meeting the following requirements of transfer:

- (a) by will or by the laws of descent and distribution; or
- (b) in the case of a nonqualified option:
 - (i) pursuant to a “Qualified Domestic Relations Order” as defined in Section 414(p) of the Internal Revenue Code; or
 - (ii) to (A) his or her spouse, children or grandchildren (“Immediate Family Members”), (B) a partnership in which the only partners are the Participant’s Immediate Family Members, or (C) a trust or trusts established solely for the benefit of one or more of the Participant’s Immediate Family Members (collectively, the Permitted Transferees), provided that there may be no consideration for any such transfer by a Participant.

Following transfer (if applicable), such Options and stock appreciation rights shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that such Options and stock appreciation rights may be exercised during the life of the Participant only by the Participant or, if applicable, by the alternate payee designated under a Qualified Domestic Relations Order or the Participant’s Permitted Transferees.

13. Exercise of Option . The Committee shall prescribe the manner in which a Participant may exercise an Option which is not inconsistent with the provisions of this Plan. However, no Option shall be exercisable, in whole or in part, for a period of at least six months commencing on the date of grant, except as provided in paragraph 20 in the event of a Change in Control. An Option may be exercised, subject to limitations on its exercise contained in the Option Agreement and in this Plan, in full, at any time, or in part, from time to time, only by (A) written notice of intent to exercise the Option with respect to a specified number of shares, and (B) by payment in full to the Company at the time of exercise of the Option, of the option price of the shares being purchased. Payment of the Option price may be made (i) in cash, (ii) if permitted by the applicable Option Agreement, by tendering of shares of Common Stock equivalent in fair market value (as defined in paragraph 9), or (iii) if permitted by the applicable Option Agreement, partly in cash and partly in shares of Common Stock. Common Stock may be tendered either by actual delivery of shares of Common Stock or by attestation.

14. Withholding . If permitted by the applicable Option Agreement, a Participant may be permitted to satisfy the Company’s withholding tax requirements by electing (i) to have the Company withhold shares of Common Stock of the Company, or (ii) to deliver to the Company shares of Common Stock of the Company having a fair market value on the date income is recognized on the exercise of a nonqualified option equal to the minimum amount required to be withheld. The election shall be made in writing and according to such rules and in such form as the Committee shall determine.

Notwithstanding the foregoing, the election and satisfaction of any withholding requirement through the withholding of Common Stock or the tender of shares of Company Stock may be made only at such times as are permitted, without incurring liabilities, by

15. Termination of Employment .

- (a) In the event a Participant's employment with the Company or any of its subsidiaries shall be terminated for any reason, except early or normal retirement, death or total and permanent disability, a Participant may exercise his or her Options and stock appreciation rights (to the extent vested and exercisable as of the date of the Participant's termination of employment) for a period of thirty (30) days after the date of the Participant's termination of employment, unless such Option or stock appreciation right expires earlier under the terms of the award agreement. Thereafter, all rights to exercise an Option or stock appreciation right shall terminate.
- (b) If the Participant should die while employed by the Company or any subsidiary prior to the expiration of the term of the Option or stock appreciation right, the Option or stock appreciation right shall be exercisable immediately to the extent it would have been exercisable had the Participant remained employed for twelve months after the date of death and may be exercised by the person to whom it is transferred by will or by the applicable laws of descent and distribution by giving notice as provided in paragraph 13, at any time within twelve months after the date of death unless such Option or stock appreciation right expires earlier under the terms of the Option Agreement. For purposes of this paragraph, the six-month limitation imposed pursuant to paragraph 13 shall not be applicable.
- (c) In the event of a Participant's termination of employment with the Company due to early or normal retirement, or due to total and permanent disability, prior to the expiration of the term of an Option or stock appreciation right, the Option or stock appreciation right:
 - (i) shall be exercisable in full without regard to any vesting requirements; provided that an Option or stock appreciation right of a Participant who retires shall be exercisable in full only if the Participant retires on or after the last day of the calendar year following the calendar year in which such Option or stock appreciation right was granted, unless the Committee determines otherwise, and
 - (ii) may be exercised by the Participant at any time within thirty-six months after the date of such early or normal retirement or termination due to total and permanent disability, as the case may be, unless such Option or stock appreciation right expires earlier under the terms of the award agreement. Provided, however, that for certain participants who are officers of the Company or who are selected by the Compensation Committee of the Board, nonqualified stock options may be exercised by the Participant for up to ten (10) years after the date of such early or normal retirement, or for five (5) years after the date of such total and permanent disability, as the case may be, in the event of termination of employment with the Company due to early or normal retirement, or due to total and permanent disability, prior to the expiration of the term of the Option or stock appreciation right, unless such Option or stock appreciation right expires earlier under the terms of the Option Agreement. For purposes hereof, a Participant's employment

shall be deemed to have terminated due to (a) early or normal retirement if such Participant is then eligible to receive immediate early or normal retirement benefits under the provisions of any of the Company's or its subsidiaries defined benefit pension plans; or, in the absence of a defined benefit plan, provided such Participant retires with ten years of service and is at least 55 years old or retires with five years of service and is at least 65 years old and (b) total and permanent disability if he is permanently disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code, as in effect from time to time.

For purposes of this Plan: (a) a transfer of an employee from the Company to a 50% or more owned subsidiary, partnership, joint venture or other affiliate (whether or not incorporated) or vice versa, or from one subsidiary, partnership, joint venture or other affiliate to another or (b) a leave of absence duly authorized in writing by the Company, provided the employee's right to re-employment is guaranteed either by statute or by contract, shall not be deemed a termination of employment under the Plan, notwithstanding the foregoing, from and after a Change of Control, as defined in paragraph 20, Options and stock appreciation rights shall continue to be exercisable for three months after a Participant's termination of employment.

16. Stock Appreciation Rights . Stock appreciation rights may be granted separate from any Option granted under the Plan to any Participant. Such stock appreciation rights may be exercised by a Participant by written notice of intent to exercise the stock appreciation rights delivered to the Committee, which notice shall state the number of shares of stock in respect of which the stock appreciation rights are being exercised. Upon such exercise, the Participant shall be entitled to receive the economic value of such stock appreciation rights determined in the manner described in subparagraph (b) of this paragraph 16 and in the form prescribed in subparagraph (c) of this paragraph 16.

Stock appreciation rights shall be subject to terms and conditions not inconsistent with other provisions of the Plan as shall be determined by the Committee, which shall include the following:

- (a) Stock appreciation rights granted in connection with the surrender of an Option shall be exercisable or transferable at such time or times and only to the extent that the Option to which they related was exercisable or transferable. The Committee shall have complete authority to determine the terms and conditions applicable to other stock appreciation rights, including the periods applicable to such rights, limitations on exercise and the number of shares of stock in respect to which such stock appreciation rights are exercisable.
- (b) Upon the exercise of stock appreciation rights, a Participant shall be entitled to receive the economic value thereof, which value shall be equal to the excess of the fair market value of one share of Common Stock on the date of exercise over the grant price per share, multiplied by the number of shares in respect of which the stock appreciation rights shall have been exercised. Stock appreciation rights

which have been so exercised shall no longer be exercisable in respect of such number of shares.

- (c) The Committee shall have the sole discretion either (i) to determine the form in which payment of such economic value will be made (i.e., cash, stock, or any combination thereof) or (ii) to consent to or disapprove the election of the Participant to receive cash in full or partial payment of such economic value.
- (d) The exercise of stock appreciation rights by a Participant pursuant to the Plan may be made only at such times as are permitted by Rule 16b-3 of the Securities Exchange Act of 1934, without liabilities, or such other securities laws or rules as may be applicable.
- (e) Stock appreciation rights shall be exercisable only when the fair market value of the Common Stock to which the stock appreciation rights relate exceeds the grant price of such stock appreciation rights.

17. Adjustment Provisions . In the event of any change in the shares of the Common Stock of the Company by reason of a declaration of a stock dividend (other than a stock dividend declared in lieu of an ordinary cash dividend), spin-off, merger, consolidation recapitalization, or split-up, combination or exchange of shares, or otherwise, the aggregate number and class of shares available under this Plan (including the per Participant limit on awards in Section 6), the number and class of shares subject to each outstanding Option and stock appreciation right, the option price for shares subject to each outstanding Option, and the option price or grant price and economic value of any stock appreciation rights shall be appropriately adjusted by the Committee, whose determination shall be conclusive. Unless the Committee determines otherwise, any such adjustment to an award that is exempt from Code Section 409A shall be made in manner that permits the award to continue to be so exempt, and any adjustment to an award that is subject to Code Section 409A shall be made in a manner that complies with the provisions thereof. Notwithstanding the foregoing, in the case of a stock dividend (other than a stock dividend declared in lieu of an ordinary cash dividend) or split-up (including a reverse stock split), if no action is taken by the Committee, adjustments contemplated by this subsection that are proportionate shall nevertheless automatically be made as of the date of such stock dividend or split-up .

18. Termination and Amendment of Plan . The Plan shall terminate on December 31, 2009, unless sooner terminated as hereinafter provided. The Board of Directors may at any time terminate the Plan, or amend the Plan as it shall deem advisable including (without limiting the generality of the foregoing) any amendments deemed by the Board of Directors to be necessary or advisable to assure conformity of the Plan and any Incentive Stock Options granted thereunder to the requirements of Section 422 of the Internal Revenue Code as now or hereafter in effect and to assure conformity with any requirements of other state and federal laws or regulations now or hereafter in effect; provided, however, that the Board of Directors may not, without further approval by the shareholders of the Company, amend paragraph 24 or make any modifications to the Plan which, by applicable law, require such approval. No termination or amendment of the Plan may, without the consent of the Participant to whom any Option or stock appreciation rights shall have been granted, adversely affect the

rights of such Participant under such Option or stock appreciation rights. The Board of Directors may also, in its discretion, permit any Option or stock appreciation right to be exercised prior to the earliest date fixed for exercise thereof under the Option Agreement. Notwithstanding the foregoing, the Board specifically reserves the right to amend the provisions of Sections 20 and 21 prior to the effective date of a Change of Control without the need to obtain the consent of the Participants or any other individual with a right to an award granted hereunder. Notwithstanding the foregoing, unless determined otherwise by the Board or Committee, any such amendment shall be made in a manner that will enable an award intended to be exempt from Code Section 409A to continue to be so exempt, or to enable an award intended to comply with Code Section 409A to continue to so comply.

19. **Rights of a Shareholder** . A Participant shall have no rights as a shareholder with respect to shares covered by his or her Option until the date of issuance of the stock to the participant and only after such shares are fully paid or with respect to stock appreciation rights. No adjustment will be made for dividends or other rights for which the record date is prior to the date such stock is issued.

20. **Change of Control** . Notwithstanding the foregoing, upon Change of Control, all previously granted Options and stock appreciation rights shall immediately become exercisable to the full extent of the original grant. For purposes of this Plan, a "Change of Control" means any of the following events: (i) the acquisition, other than from the Company, by any individual, entity or group (within the meaning of Section 13(d) or 14(d)(2) of the Securities Exchange Act of 1934, as amended from time to time) (the "Exchange Act") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Company Voting Securities"), provided, however, that any acquisition by (x) the Company of any of its subsidiaries, or any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries or (y) any corporation with respect to which, following such acquisition, more than 60% of respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, shall not constitute a change in control of the Company; or (ii) individuals who, as of September 28, 1994, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any individual becoming a director subsequent to September 28, 1994, whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under

the Exchange Act); or (iii) approval by the shareholders of the Company of consummation of a reorganization, merger or consolidation (a "Business Combination"), in each case, with respect to which all or substantially all of the of the individuals and entities who were the respective beneficial owners of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such Business Combination do not, following such Business Combination, beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporations resulting from such Business Combination in substantially the same proportion as their ownership immediately prior to such Business Combination or the Outstanding Company Common Stock and Company Voting Securities, as the case may be; or (iv) (A) a complete liquidation or dissolution of the company or a (B) sale or other disposition of all or substantially all of the assets of the Company other than to a corporation with respect to which, following such sale or disposition, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, immediately prior to such sale or disposition.

21. Termination of Awards . Notwithstanding the foregoing, upon a Change in Control, the Committee may in its discretion, commencing at the time of a Change in Control and continuing for a period of sixty days thereafter, cancel each outstanding Option or stock appreciation right in exchange for a cash payment to the holder thereof in an amount equal to the number of Options or stock appreciation rights that have not been exercised multiplied by the excess of the fair market value per Share on the date of the Change in Control (or, if the Change in Control is the result of a transaction or a series of transactions described in paragraphs (i) or (ii) of the definition of Change in Control and the Option or stock appreciation right is cancelled on the date of the Change in Control, the highest price per Share paid in such transaction or series of transactions on the date of the Change in Control) over the exercise price of the Option or the grant price of the stock appreciation right, as the case may be.

22. Governing Law and Arbitration . The Plan, and all awards hereunder, and all determinations made and actions taken pursuant to the Plan, shall be governed by the internal laws of the State of Wisconsin (without reference to conflict of law principles thereof) and construed in accordance therewith, to the extent not otherwise governed by the laws of the United States or as otherwise provided hereinafter. Notwithstanding anything to the contrary herein, if any individual brings a claim that relates to benefits under this Plan, regardless of the basis of the claim (including but not limited to wrongful discharge or Title VII discrimination), such claim shall be settled by final binding arbitration in accordance with the rules of the American Arbitration Association ("AAA") and the following provisions, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

- (a) Initiation of Action . Arbitration must be initiated by serving or mailing a written notice of the complaint to the other party. Normally, such written notice should

be provided to the other party within one year (365 days) after the day the complaining party first knew or should have known of the events giving rise to the complaint. However, this time frame may be extended if the applicable statute of limitation provides for a longer period of time. If the complaint is not properly submitted within the appropriate time frame, all rights and claims that the complaining party has or may have against the other party shall be waived and void. Any notice sent to the Company shall be delivered to:

Office of General Counsel
Johnson Controls, Inc.
5757 North Green Bay Avenue
P.O. Box 591
Milwaukee, WI 53201-0591

The notice must identify and describe the nature of all complaints asserted and the facts upon which such complaints are based. Notice will be deemed given according to the date of any postmark or the date of time of any personal delivery.

- (b) Compliance with Personnel Policies . Before proceeding to arbitration on a complaint, the claimant must initiate and participate in any complaint resolution procedure identified in the Company's or subsidiary's personnel policies. If the claimant has not initiated the complaint resolution procedure before initiating arbitration on a complaint, the initiation of the arbitration shall be deemed to begin the complaint resolution procedure. No arbitration hearing shall be held on a complaint until any applicable Company or subsidiary complaint resolution procedure has been completed.
- (c) Rules of Arbitration . All arbitration will be conducted by a single arbitrator according to the Employment Dispute Arbitration Rules of the AAA. The arbitrator will have authority to award any remedy or relief that a court of competent jurisdiction could order or grant including, without limitation, specific performance of any obligation created under the award or policy, the awarding of punitive damages, the issuance of any injunction, costs and attorney's fees to the extent permitted by law, or the imposition of sanctions for abuse of the arbitration process. The arbitrator's award must be rendered in a writing that sets forth the essential findings and conclusions on which the arbitrator's award is based.
- (d) Representation and Costs . Each party may be represented in the arbitration by an attorney or other representative selected by the party. The Company or subsidiary shall be responsible for its own costs, the AAA filing fee and all other fees, costs and expenses of the arbitrator and AAA for administering the arbitration. The claimant shall be responsible for his attorney's or representative's fees, if any. However, if any party prevails on a statutory claim which allows the prevailing party costs and/or attorneys' fees, the arbitrator may award costs and reasonable attorneys' fees as provided by such statute.

- (e) Discovery; Location; Rules of Evidence . Discovery will be allowed to the same extent afforded under the Federal Rules of Civil Procedure. Arbitration will be held at a location selected by the Company. AAA rules notwithstanding, the admissibility of evidence offered at the arbitration shall be determined by the arbitrator who shall be the judge of its materiality and relevance. Legal rules of evidence will not be controlling, and the standard for admissibility of evidence will generally be whether it is the type of information that responsible people rely upon in making important decisions.
- (f) Confidentiality . The existence, content or results of any arbitration may not be disclosed by a party or arbitrator without the prior written consent of both parties. Witnesses who are not a party to the arbitration shall be excluded from the hearing except to testify.

23. **Unfunded Plan** . This Plan shall be unfunded. No person shall have any rights greater than those of a general creditor of the Company.

24. **Repricing** . Except for adjustments pursuant to paragraph 17, neither the per share Option price for any outstanding Option granted under the Plan nor the per share grant price for stock appreciation rights granted under the Plan may be decreased after the date of grant nor may an outstanding Option or stock appreciation right granted under the Plan or a Prior Plan be surrendered to the Company as consideration for the grant of a new Option or stock appreciation right with a lower exercise or grant price.

25. **Termination for Cause or Inimical Conduct** . Notwithstanding any provisions of the Plan or an award agreement to the contrary, a Participant's Option or stock appreciation right shall be immediately cancelled and forfeited, regardless of vesting, and any pending exercises shall be cancelled, on the date that: (a) the Company or subsidiary terminates the Participant's employment for Cause, (b) the date that the Committee determines that the Participant's employment could have been terminated for Cause if the Company or subsidiary had all relevant facts in its possession as of the date of the Participant's termination, or (c) the Committee determines the Participant has engaged in Inimical Conduct. The Committee may suspend all exercises or delivery of cash or shares (without liability for interest thereon) pending its determination of whether the Participant has been or should have been terminated for Cause or has engaged in Inimical Conduct. For purposes hereof:

- (a) "Cause" means: (1) if the Participant is subject to an employment agreement that contains a definition of "cause," such definition, or (2) otherwise, any of the following as determined by the Committee: (a) violation of the provisions of any employment agreement, non-competition agreement, confidentiality agreement, or similar agreement with the Company or subsidiary, or the Company's or subsidiary's code of ethics, as then in effect, (b) conduct rising to the level of gross negligence or willful misconduct in the course of employment with the Company or subsidiary, (c) commission of an act of dishonesty or disloyalty involving the Company or subsidiary, (d) violation of any federal, state or local law in connection with the Participant's employment, or (e) breach of any fiduciary duty to the Company or a subsidiary.

- (b) "Inimical Conduct" means any act or omission that is inimical to the best of interests of the Company or any subsidiary, as determined by the Committee in its sole discretion, including but not limited to: (1) violation of any employment, noncompete, confidentiality or other agreement in effect with the Company or any subsidiary, (2) taking any steps or doing anything which would damage or negatively reflect on the reputation of the Company or a subsidiary, or (3) failure to comply with applicable laws relating to trade secrets, confidential information or unfair competition.

26. **Offset** . The Company shall have the right to offset, from any amount payable or stock deliverable hereunder, any amount that the Participant owes to the Company or any subsidiary without the consent of the Participant or any individual with a right to the Participant's award.

27. **Severability** . In the event any provision of the Plan or any award agreement is held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan or such award agreement, and the Plan or award agreement shall be construed and enforced as if the said illegal or invalid provision had not been included.

28. **Code Section 409A** . The provisions of Code Section 409A are incorporated herein by reference to the extent necessary for any award that is subject to Code Section 409A to comply therewith. Notwithstanding any provisions of the Plan, the Company does not guarantee to any Participant or any other person with an interest in an award that any award intended to be exempt from Code Section 409A shall be so exempt, nor that any award intended to comply with Code Section 409A shall so comply, nor will the Company or any affiliate indemnify, defend or hold harmless any individual with respect to the tax consequences of any such failure.



RESTRICTED STOCK AGREEMENT

GRANTED TO

NUMBER OF SHARES

Employee Name

###

GRANT DATE

STOCK PRICE

RESTRICTION PERIOD ENDS ON:

dd/mm/yyyy

Closing Price on Grant Date

Shares – dd/mm/yyyy

Shares – dd/mm/yyyy

JOHNSON CONTROLS, INC. RESTRICTED STOCK PLAN

This certifies that on dd/mm/yyyy Johnson Controls, Inc., shall grant a Restricted Stock Award as indicated above, upon the terms and conditions in this Agreement and the terms of the Restricted Stock Plan dated October 1, 2001, and amended through March 21, 2006, which terms the Participant accepts.

Johnson Controls, Inc., a Wisconsin corporation, has its principal office in Milwaukee, Wisconsin, (the "Company"). The Restricted Stock Plan (the "Plan") was adopted October 1, 2001, to allow Restricted Shares or Restricted Share Units of the Company's common stock ("Shares") to be granted to certain key employees of the Company or any Subsidiary, as defined in Section 425(f) of the Internal Revenue Code of 1986, as amended ("Subsidiary").

The individual named in this agreement (the "Participant") is a key employee of the Company or a Subsidiary, and the Company desires the Participant to remain in such employ by providing the Participant with a means to increase his/her proprietary interest in the Company's success. The Plan and this Agreement shall be administered by the Compensation Committee of the Board of Directors (the "Committee"). If at any time the Committee shall not be in existence, the Board shall administer the Plan and this Agreement and each reference to the Committee herein shall be deemed to include the Board.

The parties mutually agree as follows:

1. **Grant of Award** . Subject to the terms and conditions of the Plan, a copy of which has been delivered to the Participant and made a part hereof, and this Agreement, the Company grants to the Participant an award of Restricted Shares on the date and with respect to the number of Shares specified above. The Participant may elect, prior to or within thirty (30) days after the grant date, to convert the Award, in whole or in part, to Restricted Share Units. If the Participant fails to make an election, the Award shall remain in the form of Restricted Shares. Any capitalized terms not defined in this Agreement will have the meanings provided in the Plan.
2. **Restricted Shares** . If the Award is in the form of Restricted Shares, the Restricted shares are subject to the following provisions:

Restriction Period. The Company will hold the Restricted Shares in escrow for the Restriction Period. During this period, the Participant may not sell, transfer, pledge, assign or otherwise use these Restricted Shares, and the Restricted Shares shall be subject to forfeiture as provided in Section 4.

Restricted Shares will be held in a book entry share position while in escrow, subject to the transfer restrictions and risk of forfeiture.

 - a) Removal of Restrictions. Restricted Shares that have not been forfeited shall become available to the Participant after the last day of the Restriction Period. Once the Shares are released, the restrictions shall be removed from the Participant's book entry share position.
 - b) Voting Rights . During the Restriction Period, the Participant may exercise full voting rights with respect to the Restricted Shares.
 - c) Dividends and Other Distributions . Any dividends or other distributions paid or delivered with respect to Restricted Shares will be subject to the same terms and conditions (including risk of forfeiture) as the Restricted Shares to which they relate. All dividends or other distributions paid or delivered with respect to Restricted Shares during the Restriction Period (other than dividends or other distributions payable in Shares) shall be allocated to a Share Unit account under the Deferred Compensation Plan. Dividends or distributions payable in shares will be held in a book entry share position as Restricted Shares.
 - d) Payment of Dividends . The value of the Participant's Share Unit account as to which the Restriction Period has lapsed shall be paid to the Participant (or his beneficiary).
3. **Restricted Share Units.** If the Participant elects to convert all or part of this Award to Restricted Share Units, the Restricted Share Units are subject to the following terms:
 - a) Establishment of Account . The Company shall establish a bookkeeping account under the Deferred Compensation Plan to which shall be credited the number of Restricted Share Units elected. During the Restriction Period, the Restricted Share Unit account will be subject to a risk of forfeiture as provided in Section 4.
 - b) Alienation of Account . The Participant (or beneficiary) shall not have any right to assign, transfer, pledge, encumber or otherwise use the Restricted Share Unit account (including after the Restriction Period has lapsed).

- c) Dividends and Other Distributions. The Participant's Restricted Share Unit account shall be credited for any dividends or other distributions delivered on Shares equivalent to the number of Restricted Share Units credited to such account, whether in the form of cash or in property, in accordance with the terms of the Deferred Compensation Plan. Such credit shall be subject to the same terms and conditions (including risk of forfeiture) as the Restricted Share Units to which they relate.
- d) Payment of Account. The value of the Participant's Share Unit account as to which the Restriction Period has lapsed shall be paid to the Participant (or his beneficiary) in accordance with the terms of the Deferred Compensation Plan.

4. **Termination of Employment – Risk of Forfeiture.**

- a) Retirement. If the Participant terminates employment due to Retirement on or after the last day of the calendar year following the calendar year in which the Award of Restricted Shares or Restricted Share Units is made, any remaining Restriction Period shall continue as if the Participant continued in active employment. If the Participant engages in Inimical Conduct after his Retirement, as determined by the Committee, any Restricted Shares and/or Restricted Share Units still subject to a Restriction Period shall automatically be forfeited as of the date of the Committee's determination.
- b) Death or Disability. If the Participant's employment from the Company and its Subsidiaries terminates because of death or Total and Permanent Disability at a time when the Participant could not have been terminated for Cause, or if the Participant dies after Retirement while this Award is still subject to the Restriction Period, any remaining Restriction Period shall automatically lapse as of the date of such termination of employment or death, as applicable.
- c) Other Termination. If the Participant's employment terminates for any reason not described above, then any Restricted Shares and/or Restricted Share Units (and all deferred dividends paid or credited thereon) still subject to the Restriction Period as of the date of such termination shall automatically be forfeited and returned to the Company. In the event of the Participant's involuntary termination of employment by the Company or a Subsidiary for other than Cause, the Committee may waive the automatic forfeiture of any or all such Shares or Share Units (and all deferred dividends paid or credited thereon) and may add such new restrictions to such Restricted Shares or Restricted Share Units as it deems appropriate. The Company may suspend payment or delivery of Shares (without liability for interest thereon) pending the Committee's determination of whether the Participant was or should have been terminated for Cause or whether the Participant has engaged in Inimical Conduct.

5. **Amendment of Agreement.** The Committee, subject to the provisions of the Restricted Stock Plan, may amend this award agreement.

6. **Withholding.** The Participant agrees to remit to the Company any foreign, Federal, state and/or local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to the issuance of Shares or the vesting and/or distribution of the Participant's Share Unit account. The Company can withhold Shares no longer restricted, or can withhold from other cash or property payable to the Participant, in the amount needed to satisfy any withholding obligations.

The Participant may elect to tender to the Company previously acquired Shares to satisfy the minimum tax withholding obligations. The value of the Shares to be tendered is to be based on the Fair Market Value of the Shares on the date that the amount of tax to be withheld is determined.

7. **Securities Compliance.** The Company may place a legend or legends upon the certificates for Shares issued under the Plan and may issue “stop transfer” instructions to its transfer agent in respect of such Shares as it determines to be necessary or appropriate to (a) prevent a violation of, or to obtain an exemption from, the registration requirements of the Securities Act, applicable state securities laws or other legal requirements, or (b) implement the provisions of the Plan or any agreement between the Company and the Participant with respect to such Shares.
8. **Successors.** All obligations of the Company under this Agreement shall be binding on any successor to the Company. The terms of this Agreement and the Plan shall be binding upon and inure to the benefit of the Participants, heirs, executors, administrators or legal representatives.
9. **Legal Compliance.** The granting of this Award and the issuance of Shares under this Agreement shall be subject to all applicable laws, rules, and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.
10. **Governing Law; Arbitration.** This Agreement and the rights and obligations hereunder shall be governed by and construed in accordance with the internal laws of the State of Wisconsin.

Arbitration will be conducted per the provisions in the Restricted Stock Plan.

This Agreement, and any documents expressly incorporated herein, contains all of the provisions applicable to the Restricted Stock Award. No other statements, documents or practices may modify, waive or alter such provisions unless expressly set forth in writing, signed by an authorized officer of the Company and delivered to the Participant.

IN WITNESS WHEREOF, the Company has caused this Restricted Stock Agreement to be executed by one of its duly authorized officers, and the Participant has consented to the terms of this Agreement, as of the date of Grant specified on the front of this certificate.

JOHNSON CONTROLS, INC.

Vice President, Secretary and General Counsel

Participant

Date

**JOHNSON CONTROLS, INC.
EXECUTIVE DEFERRED COMPENSATION PLAN**

**ARTICLE 1.
PURPOSE AND DURATION**

Section 1.1. Purpose . The Johnson Controls, Inc. Executive Deferred Compensation Plan (the “Plan”) permits certain employees of the Company and its Affiliates to defer amounts otherwise payable or shares deliverable under separate bonus or equity plans or programs maintained by the Company or an Affiliate.

Section 1.2. Duration . The Plan was originally effective on October 1, 2001, as a consolidation of the deferral features of various separate plans. The Plan was most recently amended and restated effective as of January 1, 2005. The Plan shall remain in effect until terminated by the Board pursuant to Section 9.5.

**ARTICLE 2.
DEFINITIONS AND CONSTRUCTION**

Section 2.1. Definitions . Wherever used in the Plan, the following terms shall have the meanings set forth below and, where the meaning is intended, the initial letter of the word is capitalized:

(a) “Account” means the record keeping account or accounts maintained to record the interest of each Participant under the Plan. An Account is established for record keeping purposes only and not to reflect the physical segregation of assets on the Participant’s behalf, and may consist of such subaccounts or balances as the Administrator may determine to be necessary or appropriate.

(b) “Act” means the Securities Act of 1933, as interpreted by regulations and rules issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of the Act shall be deemed to include reference to any successor provision thereto.

(c) “Administrator” means the Employee Benefits Policy Committee of the Company.

(d) “Affiliate” means each entity that is required to be included in the Company’s controlled group of corporations within the meaning of Code Section 414(b), or that is under common control with the Company within the meaning of Code Section 414(c).

(e) “Beneficiary” means the person(s) or entity(ies) designated by a Participant to be his beneficiary for purposes of this Plan as provided in Section 6.4.

(f) “Board” means the Board of Directors of the Company.

(g) “Change of Control” has the meaning ascribed in Section 8.3.

(h) “Code” means the Internal Revenue Code of 1986, as interpreted by regulations and rulings issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of the Code shall be deemed to include reference to any successor provision thereto.

(i) “Committee” means the Compensation Committee of the Board, which shall consist of not less than two members of the Board, each of whom is also a director of the Company and qualifies as a “non-employee director” for purposes of Rule 16b-3 of the Exchange Act.

(j) “Company” means Johnson Controls, Inc., and its successors as provided in Section 9.7.

(k) “Deferral” means the amount credited, in accordance with a Participant’s election or as required by the Plan, to the Participant’s Account in lieu of the payment in cash thereof, or the issuance of Shares with respect thereto. Deferrals include the following:

(1) Annual Incentive Deferrals: A deferral of all or a portion of a Participant’s performance cash award under the annual incentive portion of the Johnson Controls, Inc. Annual and Long-Term Incentive Performance Plan (or any successor plan thereto) and, with the consent of the Administrator, any other annual bonus plan maintained by the Company or an Affiliate.

(2) Long-Term Incentive Deferrals: A deferral of all or a portion of a Participant’s performance cash award under the long-term incentive portion of the Johnson Controls, Inc. Annual and Long-Term Incentive Performance Plan (or any successor plan thereto) and, with the consent of the Administrator, any other multi-year bonus plan maintained by the Company or an Affiliate.

(3) Share Deferrals: A deferral of the Shares that would otherwise be issuable to a Participant in the form of restricted stock under any plan of the Company providing for the grant of restricted stock.

(4) Deferred Restricted Stock Dividends: A deferral of the dividends paid on restricted shares granted under any plan of the Company while such shares are subject to a period of restriction.

(l) “ERISA” means the Employee Retirement Income Security Act of 1974, as interpreted by regulations and rulings issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of ERISA shall be deemed to include reference to any successor provision thereto.

(m) “Exchange Act” means the Securities Exchange Act of 1934, as interpreted by regulations and rules issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of the Exchange Act shall be deemed to include reference to any successor provision thereto.

(n) “Fair Market Value” means with respect to a Share, except as otherwise provided herein, the closing sales price on the New York Stock Exchange as of 4:00 p.m. EST on the date

in question (or the immediately preceding trading day if the date in question is not a trading day), and with respect to any other property, such value as is determined by the Administrator.

(o) "Investment Options" means the investment options offered under the Johnson Controls Savings and Investment (401k) Plan (excluding the Company stock fund) or any successor plan thereto, the Share Unit Account, and any other alternatives made available by the Administrator, which shall be used for the purpose of measuring hypothetical investment experience attributable to a Participant's Account.

(p) "Participant" means an employee of the Company or any Affiliate who is employed in the United States and is participating in the Company's Stock Ownership Program, and any other employee of the Company or any Affiliate who is selected for participation under a Company or Affiliate plan described in paragraph (k) and who is offered the ability (or is required) to make Deferrals hereunder. Notwithstanding the foregoing, the Committee shall limit the foregoing group of eligible employees to a select group of management and highly compensated employees, as determined by the Committee in accordance with ERISA. Where the context so requires, a Participant also means a former employee entitled to receive a benefit hereunder.

(q) "Plan Year" means the fiscal year of the Company.

(r) "Separation from Service" means a Participant's termination of employment from the Company and all Affiliates, subject to the following:

(1) If a Participant takes a leave of absence from the Company or an Affiliate for purposes of military leave, sick leave or other bona fide leave of absence, the Participant's employment will be deemed to continue for the first six (6) months of the leave of absence, or if longer, for so long as the Participant's right to reemployment is provided by either by statute or by contract. If the period of the leave exceeds six (6) months and the Participant's right to reemployment is not provided by either statute or contract, the Participant will be considered to have incurred a Separation from Service on the first day of the seventh (7th) month of the leave of absence.

(2) If a Participant provides insignificant services to the Company or an Affiliate, the Participant will be deemed to have incurred a Separation from Service. For this purpose, a Participant is not considered to be providing insignificant services if he or she provides services at an annual rate that is at least equal to twenty percent (20%) of the services rendered by such individual, on average, during the immediately preceding three (3) calendar years of employment (or his or her actual period of employment if less) and the annual remuneration for such services is at least equal to twenty percent (20%) of the average annual remuneration earned during the final three (3) full calendar years of employment (or his or her actual period of employment, if less).

(3) If a Participant continues to provide services to the Company or an Affiliate in a capacity other than as an employee, the Participant will not be deemed to have Separated from Service if the Participant is providing services at an annual rate that is at least fifty percent (50%) of the services rendered by such individual, on average, during the immediately preceding three (3) calendar years of employment (or his or her actual period of employment if less) and the annual remuneration for such services is at least fifty percent (50%) of the average annual remuneration earned during the final three (3) full calendar years of employment (or his or her actual period of employment if less).

(s) "Share" means a share of common stock of the Company.

(t) "Share Unit Account" means the account described in Article 7, which is deemed invested in Shares.

(u) "Share Units" means the hypothetical Shares that are credited to the Share Unit Accounts in accordance with Article 7.

(v) "Unforeseeable Emergency" means a severe financial hardship of the Participant, resulting from any of the following:

(1) an illness or accident of the Participant, his or her spouse or dependent (as defined in Code Section 152(a));

(2) a loss of the Participant's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, as a result of a natural disaster); or

(3) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, as determined by the Administrator.

(w) "Valuation Date" means each day when the United States financial markets are open for business, as of which the Administrator will determine the value of each Account and will make allocations to Accounts.

Section 2.2. Construction. Wherever any words are used in the masculine, they shall be construed as though they were used in the feminine in all cases where they would so apply; and wherever any words are use in the singular or the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply. Titles of articles and sections are for general information only, and the Plan is not to be construed by reference to such items.

Section 2.3. Severability. In the event any provision of the Plan is held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

ARTICLE 3.
PARTICIPATION

Section 3.1. Effective Date . Each individual for whom an Account is maintained under the Plan as of December 31, 2004, shall continue in participation hereunder on January 1, 2005.

Section 3.2. New Participants . Each employee of the Company or an Affiliate shall automatically become a Participant on the date he makes (or is deemed to make) a deferral election under Article IV.

ARTICLE 4.
DEFERRALS OF COMPENSATION

Section 4.1. Annual Incentive Deferrals . A Participant may elect prior to the first day of the fiscal year of the Company or an Affiliate for which an annual incentive award is made, to have all or a part of the amount payable under his annual incentive award (but not less than \$1,000) deferred under this Plan. A Participant's election to defer an annual incentive award payment shall be effective only for the award to which the election relates, and shall not carry over from award to award. As of the first day of the fiscal year for which the award is made, the Participant's deferral election shall be irrevocable except as provided in Section 4.5.

Section 4.2. Long-Term Incentive Deferrals . A Participant who has been awarded a long-term incentive award may elect, prior to the first day of the final year of the performance period for such award (whether a calendar year or the fiscal year of the Company or an Affiliate, as applicable), to have all or a part of the amount payable under his long-term incentive award (but not less than \$1,000) deferred under this Plan. A Participant's election to defer a long-term incentive payment shall be effective only for the award to which the election relates, and shall not carry over from award to award. As of the first day of the final fiscal year of the performance period for such award, the Participant's deferral election shall be irrevocable except as provided in Section 4.5.

Section 4.3. Deferral of Restricted Stock . A Participant may elect prior to or within the first thirty (30) days following the date the Company grants share of restricted stock to defer all or any portion of the restricted stock awarded to such Participant; provided the first vesting date for such restricted stock award is thirteen (13) months from the grant date. A Participant's election to defer restricted stock shall be effective only for the Shares to which the election relates, and shall not carry over from award to award. Share Deferrals shall be subject to the same risk of forfeiture as the restricted shares to which such Deferrals relate. As of the date on which the shares of restricted stock would have been granted, the Participant's deferral election shall be irrevocable except as provided in Section 4.5; provided that, if the Share Deferrals vest within thirteen (13) months following the date of grant of the restricted stock, then if and to the extent required by Code Section 409A, such deferral election shall be cancelled and the restricted stock shall be delivered to the Participant on such vesting date.

Section 4.4. Deferral of Dividends on Restricted Stock . All cash dividends paid with respect to restricted stock granted by the Company to a Participant while such stock is subject to

a period of restriction shall be automatically deferred as Deferred Restricted Stock Dividends. Deferred Restricted Stock Dividends shall be subject to the same risk of forfeiture as the restricted shares to which such Deferrals relate.

Section 4.5. Cancellation of Deferral Elections. If a Participant receives a distribution due to an Unforeseeable Emergency and requests cancellation of his or her deferral elections under Section 4.1, 4.2 or 4.3, or if the Administrator determines that such deferral elections must be cancelled in order for the Participant to receive a distribution due to an Unforeseeable Emergency, then the Participant's deferral election(s) shall be cancelled. Likewise, if required for the Participant to receive a hardship distribution under the Johnson Controls Savings and Investment (401k) Plan (or any successor plan thereto), or any other 401(k) plan maintained by the Company or an Affiliate, the Participant's deferral election(s) shall be cancelled. A Participant whose deferral election(s) are cancelled pursuant to this Section 4.5 may make a new deferral election under Sections 4.1, 4.2 or 4.3 with respect to future incentive awards or restricted stock awards, as applicable, unless otherwise prohibited by the Administrator.

Section 4.6. Administration of Deferral Elections. All deferral elections must be made in the form and manner and within such time periods as the Administrator prescribes in order to be effective.

ARTICLE 5.

HYPOTHETICAL INVESTMENT OPTIONS

Section 5.1. Investment Election. Amounts credited to a Participant's Account shall reflect the investment experience of the Investment Options selected by the Participant, provided that Share Deferrals and Deferred Restricted Stock Dividends shall be automatically deemed invested in the Share Unit Account. The Participant may make an initial investment election at the time of enrollment in the Plan in whole increments of one percent (1%). A Participant may also elect to reallocate his or her Account, and may elect to allocate any future Deferrals, among the various Investment Options in whole increments of one percent (1%) from time to time as prescribed by the Administrator; provided that prior to November 15, 2006, Share Deferrals and Deferred Restricted Stock Dividends shall not be eligible for re-allocation out of the Share Unit Account. On and after November 15, 2006, Shares Deferrals and Deferred Restricted Stock Dividends that are vested may be re-allocated out of the Share Unit Account, subject to any restrictions on re-allocation as may be imposed by the Company. Such investment elections shall remain in effect until changed by the Participant. All investment elections shall become effective as soon as practicable after receipt of such election by the Administrator, and must be made in the form and manner and within such time periods as the Administrator prescribes in order to be effective. In the absence of an effective election, the Participant's Account (to the extent the Plan does not require Deferrals to be allocated to the Share Unit Account) shall be deemed invested in the default fund specified for the Johnson Controls Inc. Savings and Investment (401k) Plan (or any successor plan thereto).

On each Valuation Date, the Administrator (or its designee) shall credit the deemed investment experience with respect to the selected (or required) Investment Options to each

Participant's Account. Notwithstanding anything herein to the contrary, the Company retains the right to allocate actual amounts hereunder without regard to a Participant's request.

Section 5.2. Allocations to Investment Options .

(a) Incentive Deferrals . Annual and Long-Term Incentive Deferrals will be deemed invested in an Investment Option as of the date on which the deferrals would have otherwise been paid to the Participant.

(b) Share Deferrals . Share Deferrals will be credited to a Participant's Share Unit Account as of the date the Participant would have otherwise been issued shares of restricted stock.

(c) Deferred Restricted Stock Dividends . Whenever the Company declares a cash dividend on its Shares at a time when a Participant is deemed to have Deferred Restricted Stock Dividends, a dividend award shall be made to such Participant as of the date the dividend is paid to the Company's shareholder. The dividend award for a Participant shall be determined by multiplying the number of restricted shares held by such Participant on the date the dividend is declared by the amount or Fair Market Value of the dividend paid on one Share. All such dividend awards shall be credited to a Participant's Share Unit Account as of the date of the dividend payment.

Section 5.3. Securities Law Restrictions . Notwithstanding anything to the contrary herein, all elections under Article 5 or 6 by a Participant who is subject to Section 16 of the Exchange Act are subject to review by the Administrator prior to implementation. In accordance with Section 9.2, the Administrator may restrict additional transactions, rescind transactions, or impose other rules and procedures, to the extent deemed desirable by the Administrator in order to comply with the Exchange Act, including, without limitation, application of the review and approval provisions of this Section 5.3 to Participants who are not subject to Section 16 of the Exchange Act.

Section 5.4. Accounts are For Record Keeping Purposes Only . Plan Accounts and the record keeping procedures described herein serve solely as a device for determining the amount of benefits accumulated by a Participant under the Plan, and shall not constitute or imply an obligation on the part of the Company or any Affiliate to fund such benefits. In any event, the Company or an Affiliate may, in its discretion, set aside assets equal to part or all of such Account balances and invest such assets in Company stock, life insurance or any other investment deemed appropriate. Any such assets, including Company stock, shall be and remain the sole property of the employer that set aside such assets, and a Participant shall have no proprietary rights of any nature whatsoever with respect to such assets.

ARTICLE 6.
DISTRIBUTION OF ACCOUNTS

Section 6.1. Form of Distribution . A Participant, at the time he makes an initial deferral election under the Plan pursuant to any provision of Article 4, may elect the form of distribution with respect to each of the following sub-accounts:

- (a) Annual Incentive Deferrals, including interest, earnings or losses thereon.
- (b) Long-Term Incentive Deferrals, including interest, earnings or losses thereon.
- (c) Share Deferrals, as adjusted for gains or losses thereon.

Such election shall be made in such form and manner as the Administrator may prescribe, and shall be irrevocable. The election shall specify whether distributions shall be made in a single lump sum or from two (2) to ten (10) annual installments. In the absence of a distribution election with respect to a particular subaccount, payment shall be made in ten (10) annual installments.

No election shall be made with respect to Deferred Restricted Stock Dividends, which are automatically paid in a lump sum when the related restricted shares vest.

Section 6.2. Time of Distribution .

(a) Separation from Service . Upon a Participant's Separation from Service for any reason, the Participant, or his Beneficiary in the event of his death, shall be entitled to payment of the amount accumulated in such Participant's Account.

(b) Payment of Deferred Restricted Stock Dividends . Notwithstanding anything herein to the contrary, the portion of the Participant's Share Unit Account that is related to Deferred Restricted Stock Dividends shall be paid to the Participant at the time the shares of restricted stock to which such deferrals relate are no longer subject to a period of restriction.

(c) Earlier Distribution . Notwithstanding the foregoing, a distribution may be made prior to the date specified in subsection (a) or (b) above as follows:

(1) If an amount deferred under this Plan is required to be included in income under Code Section 409A prior to the date such amount is actually distributed, a Participant shall receive a distribution, in a lump sum as soon as practicable after the date the Plan fails to meet the requirements of Code Section 409A, of the amount required to be included in the Participant's income as a result of such failure.

(2) If an amount under the Plan is required to be immediately distributed in a lump sum under a domestic relations order within the meaning of Code Section 414(p)(1)(B), it may be distributed

according to the terms of such order, provided the Participant holds the Administrator harmless with respect to such distribution. The Plan shall not distribute amounts required to be distributed under a domestic relations order other than in the limited circumstance specifically stated herein.

Section 6.3. Manner of Distribution . The Participant's Account shall be paid in cash in the following manner:

(a) Lump Sum . If payment is to be made in a lump sum,

(1) for those Participants whose Separation from Service occurs from January 1 through June 30 of a year, payment shall be made in the first calendar quarter of the following year, and

(2) for those Participants whose Separation from Service occurs from July 1 through December 31 of a year, payment shall be made in the third calendar quarter of the following year.

The lump sum payment shall equal the balance of the Participant's Account as of the Valuation Date immediately preceding the distribution date. Notwithstanding the foregoing, the portion of the Participant's Share Unit Account related to Deferred Restricted Stock Dividends shall be paid as provided in Section 6.2(b).

(b) Installments . If payment is to be made in annual installments, the first annual payment shall be made:

(1) for those Participants whose Separation from Service occurs from January 1 through June 30 of a year, in the first calendar quarter of the following year, and

(2) for those Participants whose Separation from Service occurs during the period from July 1 through December 31 of a year, in the third calendar quarter of the following year.

The amount of the first annual payment shall equal the value of $1/10^{\text{th}}$ (or $1/9^{\text{th}}$, $1/8^{\text{th}}$, $1/7^{\text{th}}$, etc. depending on the number of installments elected) of the balance of the Participant's Account as of the Valuation Date immediately preceding the distribution date. All subsequent annual payments shall be made in the first calendar quarter of each subsequent calendar year, and shall be in an amount equal to the value of $1/9^{\text{th}}$ (or $1/8^{\text{th}}$, $1/7^{\text{th}}$, $1/6^{\text{th}}$, etc. depending on the number of installments elected) of the balance of the Participant's Account as of the Valuation Date immediately preceding the distribution date. The final annual installment payment shall equal the then remaining balance of such Account as of the Valuation Date preceding such final payment date.

Notwithstanding the foregoing provisions, if the balance of a Participant's Account at distribution date is less than fifty thousand dollars (\$50,000) during the payout period, the

remaining balance shall be paid in the form of a lump sum on (or as soon as practicable following) such distribution date.

(c) Delay in Payment. Notwithstanding the foregoing, a distribution may be delayed beyond the date it would have otherwise been paid under subsection (a) or (b) in the following circumstances:

- (1) If the distribution will violate the terms of a loan agreement or other similar contract to which the Company or an Affiliate, as applicable, is a party, and if any such violation will cause material harm to the Company or Affiliate, the distribution shall be delayed until the first date that a violation will not occur or the violation will not cause material harm to the Company or an Affiliate.
- (2) If the distribution will violate the terms of Section 16(b) of the Exchange Act or other Federal securities laws, or any other applicable law, then the distribution shall be delayed until the earliest date on which making the distribution will not violate such law.

Section 6.4. Distribution of Remaining Account Following Participant's Death.

(a) Distribution. In the event of the Participant's death prior to receiving all payments due hereunder, the balance of the Participant's Account shall be paid to the Participant's Beneficiary in a lump sum as soon as practicable after the Participant's death.

(b) Designation of Beneficiary. Each Participant may designate a Beneficiary in such form and manner and within such time periods as the Administrator may prescribe. A Participant can change his beneficiary designation at any time, provided that each beneficiary designation shall revoke the most recent designation, and the last designation received by the Administrator while the Participant was alive shall be given effect. If a Participant designates a Beneficiary without providing in the designation that the Beneficiary must be living at the time of distribution, the designation shall vest in the Beneficiary the distribution payable after the Participant's death, and such distribution if not paid by the Beneficiary's death shall be made to the Beneficiary's estate. In the event there is no valid beneficiary designation in effect at the time of the Participant's death, in the event the Participant's designated Beneficiary does not survive the Participant, or in the event that the beneficiary designation provides that the Beneficiary must be living at the time of distribution and such designated Beneficiary does not survive to the distribution date, the Participant's estate will be deemed the Beneficiary and will be entitled to receive payment. If a Participant designates his spouse as a beneficiary, such beneficiary designation automatically shall become null and void on the date the Administrator receives notice of the Participant's divorce or legal separation.

Section 6.5. Distribution in Event of Unforeseeable Emergency. If requested by a Participant while in the employ of the Company or an Affiliate and if the Administrator determines that an Unforeseeable Emergency has occurred, all or part of the Participant's vested Account may be paid out to the Participant in a cash lump sum. The amount to be distributed to

the Participant shall only be such amount as is needed to alleviate the Participant's Unforeseeable Emergency, including any Federal, state or local income taxes or penalties reasonably anticipated to result from the distribution, after taking into account the extent to which the emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets (to the extent such liquidation would not itself cause a severe financial hardship), or by cessation of deferrals under the Plan.

Section 6.6. Tax Withholding. The Company shall have the right to deduct from any deferral or payment made hereunder, or from any other amount due a Participant, the amount of cash and/or Fair Market Value of Shares sufficient to satisfy the Company's or Affiliate's foreign, federal, state or local income tax withholding obligations with respect to such deferral (or vesting thereof) or payment. In addition, if prior to the date of distribution of any amount hereunder, the Federal Insurance Contributions Act (FICA) tax imposed under Code Sections 3101, 3121(a) and 3121(v)(2), where applicable, becomes due, the Participant's Account balance shall be reduced by the amount needed to pay the Participant's portion of such tax.

Section 6.7. Offset. The Company or Affiliate shall have the right to offset from any amount payable hereunder any amount that the Participant owes to the Company or any Affiliate without the consent of the Participant (or his Beneficiary, in the event of the Participant's death).

ARTICLE 7.

RULES WITH RESPECT TO SHARE UNITS

Section 7.1. Valuation of Share Unit Account. When any amounts are to be allocated to a Share Unit Account (whether in the form of Deferrals or amounts that are deemed re-allocated from another Investment Option), such amount shall be converted to whole and fractional Share Units, with fractional units calculated to three decimal places, by dividing the amount to be allocated by the Fair Market Value of a Share on the effective date of such allocation. If any dividends or other distributions are paid on Shares while a Participant has Share Units credited to his Account, such Participant shall be credited with a dividend award equal to the amount of the cash dividend paid or Fair Market Value of other property distributed on one Share, multiplied by the number of Share Units credited to his Share Unit Account on the date the dividend is declared. The dividend award shall be converted into additional Share Units as provided above using the Fair Market Value of a Share on the date the dividend is paid or distributed. Any other provision of this Plan to the contrary notwithstanding, if a dividend is paid on Shares in the form of a right or rights to purchase shares of capital stock of the Company or any entity acquiring the Company, no additional Share Units shall be credited to the Participant's Share Unit Account with respect to such dividend, but each Share Unit credited to a Participant's Share Unit Account at the time such dividend is paid, and each Share Unit thereafter credited to the Participant's Share Unit Account at a time when such rights are attached to Shares, shall thereafter be valued as of any point in time on the basis of the aggregate of the then Fair Market Value of one Share plus the then Fair Market Value of such right or rights then attached to one Share.

Section 7.2. Transactions Affecting Common Stock. In the event of any merger, share exchange, reorganization, consolidation, recapitalization, stock dividend, stock split or other

change in corporate structure of the Company affecting Shares, the Committee may make appropriate equitable adjustments with respect to the Share Units credited to the Share Unit Account of each Participant, including without limitation, adjusting the date as of which such units are valued and/or distributed, as the Committee determines is necessary or desirable to prevent the dilution or enlargement of the benefits intended to be provided under the Plan.

Section 7.3. No Shareholder Rights With Respect to Share Units . Participants shall have no rights as a stockholder pertaining to Share Units credited to their Accounts. No individual shall have any right to receive a distribution of Company stock under this Plan. All distributions from the Share Unit Account are made in cash.

ARTICLE 8.

SPECIAL RULES APPLICABLE IN THE EVENT OF A CHANGE OF CONTROL OF THE COMPANY

Section 8.1. Acceleration of Payment of Accounts . Notwithstanding any other provision of this Plan, within 30 days after a Change of Control, each Participant, including Participants receiving installment payments under the Plan, shall be entitled to receive a lump sum payment in cash of all amounts accumulated in such Participant's Account. Such payment shall be made as soon as practicable following the Change of Control.

In determining the amount accumulated in a Participant's Share Unit Account, each Share Unit shall have a value equal to the higher of (a) the highest reported sales price, regular way, of a share of the Company's common stock on the Composite Tape for New York Stock Exchange Listed Stocks (the "Composite Tape") during the sixty-day period prior to the date of the Change of Control of the Company and (b) if the Change of Control of the Company is the result of a transaction or series of transactions described in Section 8.3(a), the highest price per Share of the Company paid in such transaction or series of transactions.

Section 8.2. Definition of a Change of Control . A Change of Control means any of the following events, provided that each such event would constitute a change of control within the meaning of Code Section 409A:

(a) The acquisition, other than from the Company, by any individual, entity or group of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act), including in connection with a merger, consolidation or reorganization, of more than either:

- (1) Fifty percent (50%) of the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or
- (2) Thirty-five (35%) of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Company Voting Securities"),

provided, however, that any acquisition by (x) the Company or any of its subsidiaries, or any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries or (y) any corporation with respect to which, following such acquisition, more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, shall not constitute a Change in Control of the Company; or

(b) Individuals who, as of January 1, 2005, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board during any 12-month period, *provided* that any individual becoming a director subsequent to January 1, 2005, whose election or nomination for election by the Company’s shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board, shall be considered as though such individual were a member of the Incumbent Board; or

(c) A complete liquidation or dissolution of the Company or sale or other disposition of all or substantially all of the assets of the Company other than to a corporation with respect to which, following such sale or disposition, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, immediately prior to such sale or disposition. For purposes hereof, “a sale or other disposition of all or substantially all of the assets of the Company” will not be deemed to have occurred if the sale involves assets having a total gross fair market value of less than forty percent (40%) of the total gross fair market value of all assets of the Company immediately prior to the acquisition. For this purpose, “gross fair market value” means the value of the assets without regard to any liabilities associated with such assets.

For purposes of this Section 8.2, persons will not be considered to be acting as a “group” solely because they purchase or own stock of the Company at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a “group” if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. If a person, including an entity, owns stock in the Company and any other corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in such corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the Company.

Section 8.3. Maximum Payment Limitation .

(a) Limit on Payments. Except as provided in subsection (b) below, if any portion of the payments or benefits described in this Plan or under any other agreement with or plan of the Company or an Affiliate (in the aggregate, “Total Payments”), would constitute an “excess parachute payment”, then the Total Payments to be made to the Participant shall be reduced such that the value of the aggregate Total Payments that the Participant is entitled to receive shall be one dollar (\$1) less than the maximum amount which the Participant may receive without becoming subject to the tax imposed by Section 4999 of the Code or which the Company may pay without loss of deduction under Section 280G(a) of the Code; *provided that* this Section shall not apply in the case of a Participant who has in effect a valid employment contract providing that the Total Payments to the Participant shall be determined without regard to the maximum amount allowable under Section 280G of the Code. The terms “excess parachute payment” and “parachute payment” shall have the meanings assigned to them in Section 280G of the Code, and such “parachute payments” shall be valued as provided therein. Present value shall be calculated in accordance with Section 280G(d)(4) of the Code. Within forty (40) days following delivery of notice by the Company to the Participant of its belief that there is a payment or benefit due the Participant which will result in an excess parachute payment, the Participant and the Company, at the Company’s expense, shall obtain the opinion (which need not be unqualified) of nationally recognized tax counsel selected by the Company’s independent auditors and acceptable to the Participant in his sole discretion (which may be regular outside counsel to the Company), which opinion sets forth (1) the amount of the Base Period Income, (2) the amount and present value of Total Payments and (3) the amount and present value of any excess parachute payments determined without regard to the limitations of this Section. As used in this Section, the term “Base Period Income” means an amount equal to the Participant’s “annualized includible compensation for the base period” as defined in Section 280G(d)(1) of the Code. For purposes of such opinion, the value of any noncash benefits or any deferred payment or benefit shall be determined by the Company’s independent auditors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code, which determination shall be evidenced in a certificate of such auditors addressed to the Company and the Participant. Such opinion shall be addressed to the Company and the Participant and shall be binding upon the Company and the Participant. If such opinion determines that there would be an excess parachute payment, the payments hereunder that are includible in Total Payments or any other payment or benefit determined by such counsel to be includible in Total Payments shall be reduced or eliminated as specified by the Participant in writing delivered to the Company within thirty days of his receipt of such opinion or, if the Participant fails to so notify the Company, then as the Company shall reasonably determine, so that under the bases of calculations set forth in such opinion there will be no excess parachute payment. If such legal counsel so requests in connection with the opinion required by this Section, the Participant and the Company shall obtain, at the Company’s expense, and the legal counsel may rely on in providing the opinion, the advice of a firm of recognized executive compensation consultants as to the reasonableness of any item of compensation to be received by the Participant. If the provisions of Sections 280G and 4999 of the Code are repealed without succession, then this Section shall be of no further force or effect.

(b) Employment Contract Governs. The provisions of subsection (a) above shall not apply to a Participant whose employment is governed by an employment contract that provides for Total Payments in excess of the limitation described in subsection (a) above.

ARTICLE 9.
GENERAL PROVISIONS

Section 9.1. Administration .

(a) General . The Committee shall have overall authority with respect to administration of the Plan; *provided* that the Administrator shall have responsibility for the general operation and daily administration of the Plan as specified herein. If at any time the Committee shall not be in existence or not be composed of members of the Board who qualify as “non-employee directors”, then all determinations affecting Participants who are subject to Section 16 of the Exchange Act shall be made by the full Board, and all determinations affecting other Participants shall be made by the Board or an officer of the Company or other committee appointed by the Board (with the assistance of the Administrator). The Committee or Administrator may, in its discretion, delegate any or all of its authority and responsibility; *provided* that the Committee shall not delegate authority and responsibility with respect to non-ministerial functions that relate to the participation by Participants who are subject to Section 16 of the Exchange Act at the time any such delegated authority or responsibility is exercised. To the extent of any such delegation, any references herein to the Committee or Administrator, as applicable, shall be deemed references to such delegatee. Interpretation of the Plan shall be within the sole discretion of the Committee or the Administrator with respect to their respective duties hereunder. If any delegatee of the Committee or the Administrator shall also be a Participant or Beneficiary, any determinations affecting the delegatee’s participation in the Plan shall be made by the Committee or Administrator, as applicable.

(b) Authority and Responsibility . In addition to the authority specifically provided herein, the Committee and Administrator shall have the discretionary authority to take any action or make any determination it deems necessary for the proper administration of its respective duties under the Plan, including but not limited to: (1) prescribe rules and regulations for the administration of the Plan; (2) prescribe forms for use with respect to the Plan; (3) interpret and apply all of the Plan’s provisions, reconcile inconsistencies or supply omissions in the Plan’s terms; (4) make appropriate determinations, including factual determinations, and calculations; and (5) prepare all reports required by law. Any action taken by the Committee shall be controlling over any contrary action of the Administrator. The Committee or Administrator may delegate its ministerial duties to a third party and to the extent such delegation, references to the Committee or Administrator herein shall mean such delegatee.

(c) Decisions Binding . The Committee’s and Administrator’s determinations shall be final and binding on all parties with an interest hereunder, unless determined to be arbitrary and capricious.

(d) Procedures of the Committee . The Committee’s determinations must be made by not less than a majority of its members present at the meeting (in person or otherwise) at which a quorum is present, or by written consent, which sets forth the action, is signed by each member of the Committee and filed with the minutes for proceedings of the Committee. A majority of the entire Committee shall constitute a quorum for the transaction of business. The Administrator’s determinations shall be made in accordance with such procedures it establishes.

(e) Indemnification. Service on the Committee or as an Administrator shall constitute service as a director or officer of the Company so that the Committee and Administrator members shall be entitled to indemnification, limitation of liability and reimbursement of expenses with respect to their Committee or Administrator services to the same extent that they are entitled under the Company's By-laws and Wisconsin law for their services as directors or officers of the Company.

Section 9.2. Restrictions to Comply with Applicable Law. All transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 under the Exchange Act. The Committee and Administrator shall administer the Plan so that transactions under the Plan will be exempt from or comply with Section 16 of the Exchange Act, and shall have the right to restrict or rescind any transaction, or impose other rules and requirements, to the extent it deems necessary or desirable for such exemption or compliance to be met.

Section 9.3. Claims Procedures.

(a) Initial Claim. If a Participant or Beneficiary (the "claimant") believes that he is entitled to a benefit under the Plan that is not provided, the claimant or his legal representative shall file a written claim for such benefit with the Committee within one hundred and eighty (180) days from the date the claimant receives the distribution giving rise to the claim or knows of the facts giving rise to the claim. The Committee shall review the claim within ninety (90) days following the date of receipt of the claim; *provided* that the Committee may determine that an additional ninety (90)-day extension is necessary due to circumstances beyond the Committee's control, in which event the Committee shall notify the claimant prior to the end of the initial period that an extension is needed, the reason therefor and the date by which the Committee expects to render a decision. If the claimant's claim is denied in whole or part, the Committee shall provide written notice to the claimant of such denial. The written notice shall include: the specific reason(s) for the denial; reference to specific Plan provisions upon which the denial is based; a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of which such material or information is necessary; and a description of the Plan's review procedures (as set forth in subsection (b)) and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under section 502(a) of ERISA following an adverse determination upon review.

(b) Request for Appeal. The claimant has the right to appeal the Committee's decision by filing a written appeal to the Committee within sixty (60) days after claimant's receipt of the decision or deemed denial. The claimant will have the opportunity, upon request and free of charge, to have reasonable access to and copies of all documents, records and other information relevant to the claimant's appeal. The claimant may submit written comments, documents, records and other information relating to his claim with the appeal. The Committee will review all comments, documents, records and other information submitted by the claimant relating to the claim, regardless of whether such information was submitted or considered in the initial claim determination. The Committee shall make a determination on the appeal within sixty (60) days after receiving the claimant's written appeal; *provided* that the Committee may determine that an additional sixty (60)-day extension is necessary due to circumstances beyond the Committee's control, in which event the Committee shall notify the claimant prior to the end

of the initial period that an extension is needed, the reason therefor and the date by which the Committee expects to render a decision. If the claimant's appeal is denied in whole or part, the Committee shall provide written notice to the claimant of such denial. The written notice shall include: the specific reason(s) for the denial; reference to specific Plan provisions upon which the denial is based; a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, and other information relevant to the claimant's claim; and a statement of the claimant's right to bring a civil action under section 502(a) of ERISA. If the claimant does not receive a written decision within the time period(s) described above, the appeal shall be deemed denied on the last day of such period(s).

(c) ERISA Fiduciary. For purposes of ERISA, the Committee shall be considered the named fiduciary under the Plan and the plan administrator.

Section 9.4. Participant Rights Unsecured.

(a) Unsecured Claim. The right of a Participant or his Beneficiary to receive a distribution hereunder shall be an unsecured claim, and neither the Participant nor any Beneficiary shall have any rights in or against any amount credited to his Account or any other specific assets of the Company or an Affiliate. The right of a Participant or Beneficiary to the payment of benefits under this Plan shall not be assigned, encumbered, or transferred, except as permitted under Section 6.4. The rights of a Participant hereunder are exercisable during the Participant's lifetime only by him or his guardian or legal representative.

(b) Contractual Obligation. The Company or an Affiliate may authorize the creation of a trust or other arrangements to assist it in meeting the obligations created under the Plan. However, any liability to any person with respect to the Plan shall be based solely upon any contractual obligations that may be created pursuant to the Plan. No obligation of the Company or an Affiliate shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company or any Affiliate. Nothing contained in this Plan and no action taken pursuant to its terms shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company or an Affiliate and any Participant or Beneficiary, or any other person.

Section 9.5. Amendment or Termination of Plan.

(a) Amendment. The Committee may at any time amend the Plan, including but not limited to modifying the terms and conditions applicable to (or otherwise eliminating) Deferrals to be made on or after the amendment date; *provided, however*, that no amendment may reduce or eliminate any Account balance accrued to the date of such amendment (except as such Account balance may be reduced as a result of investment losses allocable to such Account) without a Participant's consent except as otherwise specifically provided herein; and *provided further* that the Board must approve any amendment that expands the class of employees eligible for participation under the Plan, that materially increases the benefits provided under the Plan or that is required to be approved by the Board by any applicable law or the listing requirements of the national securities exchange upon which the Company's common stock is then traded. In addition, the Administrator may at any time amend the Plan to make administrative changes and changes necessary to comply with applicable law.

(b) Termination. The Committee may terminate the Plan in accordance with the following provisions. Upon termination of the Plan, any deferral elections then in effect shall be cancelled.

(1) The Committee may terminate the Plan within twelve (12) months of a corporate dissolution taxed under Code Section 331, or with the approval of a bankruptcy court pursuant to 11 U.S.C. §503(b)(1)(A), provided that the amounts accrued under the Plan are distributed to the Participants or Beneficiaries, as applicable, in a single sum payment, regardless of any distribution election then in effect, in the later of: (A) the calendar year in which the Plan termination occurs or (B) the first calendar year in which payment is administratively practicable.

(2) The Committee may terminate the Plan at any time during the period that begins thirty (30) days prior and ends twelve (12) months following a Change of Control, provided that all substantially similar arrangements (within the meaning of Code Section 409A) sponsored by the Company are terminated, so that all participants under similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of the date of termination of the arrangements.

(3) The Committee may terminate the Plan at any other time. In such event, the balance of all Accounts will be distributed to all Participants or Beneficiaries, as applicable, in a single sum payment no earlier than twelve (12) months (and no later than twenty-four (24) months) after the date of termination, regardless of any distribution election then in effect. This provision shall not be effective unless all other plans required to be aggregated with this Plan under Code Section 409A are also terminated. Notwithstanding the foregoing, any payment that would otherwise be paid during the twelve (12)-month period beginning on the Plan termination date pursuant to the terms of the Plan shall be paid in accordance with such terms. In addition, the Company or any Affiliate shall be prohibited from adopting a similar arrangement within five (5) years following the date of the Plan's termination, unless any individual who was a Participant under this Plan is excluded from participating thereunder for such five (5) year period.

Section 9.6. Administrative Expenses. Costs of establishing and administering the Plan will be paid by the Company and its participating Affiliates.

Section 9.7. Successors and Assigns. This Plan shall be binding upon and inure to the benefit of the Company, its successors and assigns and the Participants and their heirs, executors, administrators, and legal representatives.

Section 9.8. Governing Law; Limitation on Actions; Dispute Resolution.

(a) Governing Law. This Plan is intended to be a plan of deferred compensation maintained for a select group of management or highly compensated employees as that term is used in ERISA, and shall be interpreted so as to comply with the applicable requirements thereof. In all other respects, the Plan is to be construed and its validity determined according to the laws of the State of Wisconsin (without reference to conflict of law principles thereof) to the extent such laws are not preempted by federal law.

(b) Limitation on Actions. Any action or other legal proceeding with respect to the Plan may be brought only after the claims and appeals procedures of Section 9.3 are exhausted and only within period ending on the earlier of (1) one year after the date claimant receives notice or deemed notice of a denial upon appeal under Section 9.3(b), or (2) the expiration of the applicable statute of limitations period under applicable federal law. Any action or other legal proceeding not adjudicated under ERISA must be arbitrated in accordance with the provisions of subsection (c).

(c) Arbitration.

(1) Application. Notwithstanding any employee agreement in effect between a Participant and the Company or any Affiliate employer, if a Participant or Beneficiary brings a claim that relates to benefits under this Plan that is not covered under ERISA, and regardless of the basis of the claim (including but not limited to, actions under Title VII, wrongful discharge, breach of employment agreement, etc.), such claim shall be settled by final binding arbitration in accordance with the rules of the American Arbitration Association ("AAA") and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(2) Initiation of Action. Arbitration must be initiated by serving or mailing a written notice of the complaint to the other party. Normally, such written notice should be provided to the other party within one year (365 days) after the day the complaining party first knew or should have known of the events giving rise to the complaint. However, this time frame may be extended if the applicable statute of limitation provides for a longer period of time. If the complaint is not properly submitted within the appropriate time frame, all rights and claims that the complaining party has or may have against the other party shall be waived and void. Any notice sent to the Company shall be delivered to:

Office of General Counsel
Johnson Controls, Inc.
5757 North Green Bay Avenue
P.O. Box 591
Milwaukee, WI 53201-0591

The notice must identify and describe the nature of all complaints asserted and the facts upon which such complaints are based. Notice will be deemed given according to the date of any postmark or the date of time of any personal delivery.

(3) Compliance with Personnel Policies. Before proceeding to arbitration on a complaint, the Participant or Beneficiary must initiate and participate in any complaint resolution procedure identified in the Company's or Affiliate's personnel policies. If the claimant has not initiated the complaint resolution procedure before initiating arbitration on a complaint, the initiation of the arbitration shall be deemed to begin the complaint resolution procedure. No arbitration hearing shall be held on a complaint until any applicable complaint resolution procedure has been completed.

(4) Rules of Arbitration. All arbitration will be conducted by a single arbitrator according to the Employment Dispute Arbitration Rules of the AAA. The arbitrator will have authority to award any remedy or relief that a court of competent jurisdiction could order or grant including, without limitation, specific performance of any obligation created under policy, the awarding of punitive damages, the issuance of any injunction, costs and attorney's fees to the extent permitted by law, or the imposition of sanctions for abuse of the arbitration process. The arbitrator's award must be rendered in a writing that sets forth the essential findings and conclusions on which the arbitrator's award is based.

(5) Representation and Costs. Each party may be represented in the arbitration by an attorney or other representative selected by the party. The Company or Affiliate shall be responsible for its own costs, the AAA filing fee and all other fees, costs and expenses of the arbitrator and AAA for administering the arbitration. The claimant shall be responsible for his attorney's or representative's fees, if any. However, if any party prevails on a statutory claim which allows the prevailing party costs and/or attorneys' fees, the arbitrator may award costs and reasonable attorneys' fees as provided by such statute.

(6) Discovery; Location; Rules of Evidence. Discovery will be allowed to the same extent afforded under the Federal Rules of Civil Procedure. Arbitration will be held at a location selected by

the Company. AAA rules notwithstanding, the admissibility of evidence offered at the arbitration shall be determined by the arbitrator who shall be the judge of its materiality and relevance. Legal rules of evidence will not be controlling, and the standard for admissibility of evidence will generally be whether it is the type of information that responsible people rely upon in making important decisions.

(7) Confidentiality. The existence, content or results of any arbitration may not be disclosed by a party or arbitrator without the prior written consent of both parties. Witnesses who are not a party to the arbitration shall be excluded from the hearing except to testify.

ADDENDUM
SPECIAL TRANSITION RULES

Pursuant to the provisions of Notice 2005-1:

1. In reliance on the 6-month advance deferral election for performance-based compensation, the Company provided each Participant with an opportunity to file a new deferral election by March 31, 2005, with respect to each of such Participant's Annual and Long-Term Incentive Awards that had not yet been paid as of the date the election was filed.
2. The Company provided each Participant with an opportunity to file a new distribution election during calendar year 2005, with respect to each of his Annual Incentive Deferrals sub-account, Long-Term Incentive Deferrals sub-account and Share Deferrals sub-account. The new distribution election allowed the Participant to select a lump sum or up to ten (10) annual installments for each of his sub-accounts. The distribution election received by the Administrator as of December 31, 2005 is irrevocable.
3. The Company permitted the following individuals to cancel participation in the Plan and receive a lump sum payout in 2005 of his Account Balance: John Fiori

**JOHNSON CONTROLS, INC.
2003 STOCK PLAN
FOR OUTSIDE DIRECTORS**

1. **Establishment**. JOHNSON CONTROLS, INC. (the “Company”) hereby establishes a plan for the members of its Board of Directors who are not officers or employees of the Company or any of its subsidiaries (“Outside Directors”), as described herein, which shall be known as the JOHNSON CONTROLS, INC. 2003 STOCK PLAN FOR OUTSIDE DIRECTORS (the “Plan”). This Plan is amended and restated as of October 1, 2006.
 2. **Purpose**. The purpose of the Plan is to advance the Company’s growth and success and to advance its interests by attracting and retaining well-qualified Outside Directors upon whose judgment the Company is largely dependent for the successful conduct of its operations and by providing such individuals with incentives to put forth maximum efforts for the long-term success of the Company’s business.
 3. **Effective Date of the Plan**. The effective date of the Plan is October 1, 2003, subject to its approval by the shareholders of the Company at the annual meeting to be held on January 28, 2004.
 4. **Stock Subject to the Plan**. Subject to adjustment in accordance with the provisions of Section 8, the total number of shares of common stock of the Company (“Common Stock”), available for awards under this Plan shall not exceed 80,000 shares. Shares of Common Stock to be delivered under the Plan shall be made available from presently authorized but unissued Common Stock or authorized and issued shares of Common Stock reacquired and held as treasury shares, or a combination thereof.
 5. **Administration**.
 - (a) The Plan shall be administered by the Corporate Governance Committee (the “Committee”) of the Board of Directors.
 - (b) Subject to the express provisions of the Plan, the Committee shall have authority to interpret the Plan, to the extent provided by law.
 - (c) The members of the Committee shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including attorney’s fees) arising from any act, omission, interpretation, construction or determination made in connection with the Plan to the full extent permitted by law and under any directors and officers liability insurance that may be in effect from time to time.
 - (d) A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by a majority of the Committee without a meeting, shall be the acts of the Committee.
-

6. **Grants of Common Stock**. Each Outside Director shall be granted Common Stock as follows:

- (a) **Initial Grants [prior to October 1, 2006]**. On and after January 28, 2004 [and prior to October 1, 2006], any individual, other than an individual who was serving on the Board of Directors prior to that date, who is elected or appointed to the Board of Directors as an Outside Director shall be granted 800 shares of Common Stock upon such Director's election or appointment.
- (b) **Subsequent Grants prior to October 1, 2006**. On January 28, 2004 and on the date of each subsequent annual meeting of shareholders of the Company ("Grant Date") that occurs prior to October 1, 2006, an Outside Director, if elected, re-elected or retained as an Outside Director at such meeting, shall be granted such number of shares of Common Stock, rounded down to the nearest whole share, whose value on the Grant Date shall equal fifty (50) percent of the annual retainer fee voted by the Board of Directors, exclusive of any meeting or committee fees. The value of a share of Common Stock on the Grant Date means the closing sales price on that date, or on the next preceding trading day if such date was not a trading day, as reported on the New York Stock Exchange or as otherwise determined by the Committee. The remaining percent of the annual retainer fee, both for Outside Directors serving on January 28, 2004 and Outside Directors who may begin serving on the Board of Directors thereafter, shall be paid in cash at that time less any required withholdings for taxes and related charges. Prior to October 1, 2006, Directors elected during the year shall be granted a proportionate share of the annual retainer fee at the time of their election, with fifty (50) percent each in Common Stock and cash as set forth above. The Committee shall have the right to reduce the percentage of the retainer fee to be paid in Common Stock in any calendar year, provided that such reductions may be made only one time in each calendar year.
- (c) **Grants on and after October 1, 2006**. Effective October 1, 2006, an Outside Director in office on November 15, 2006, and thereafter, an Outside Director in office on the first business day coincident with or following the first day of each calendar quarter (each, a "Grant Date"), shall be granted such number of shares of Common Stock, rounded down to the nearest whole share, whose value on the Grant Date shall equal fifty percent (50%) of the aggregate fees voted by the Board of Directors to be paid to such director on such date. The value of a share of Common Stock on the Grant Date means the closing sales price on that date, or on the next preceding trading day if such date was not a trading day, as reported on the New York Stock Exchange. The remaining fifty percent (50%) of the aggregate fees to be paid to such director shall be paid in cash on the Grant Date. The Committee shall have the right to reduce the percentage of the fees to be paid in Common Stock in any fiscal year.
- (d) **Deferral of Grants**. An Outside Director may defer receipt of all or any portion of the Common Stock and/or cash received pursuant to Section 6(b) or (c) in accordance with the terms and conditions of the Johnson Controls, Inc. Deferred

Compensation Plan for Certain Directors (the “Deferred Compensation Plan”). An Outside Director may not defer receipt of any portion of the Common Stock received pursuant to Section 6(a).

7. **Termination of Service as Outside Director**. If an Outside Director ceases to serve on the Board of Directors, then all rights to receive Common Stock hereunder shall terminate immediately.
8. **Adjustment Provisions**. In the event of any change in the shares of the Common Stock by reason of a declaration of a stock dividend (other than a stock dividend declared in lieu of an ordinary cash dividend), spin-off, merger, consolidation, recapitalization, or split-up, combination or exchange of shares or otherwise, the aggregate number of shares available under this Plan shall be appropriately adjusted by the Committee, using the same standards and/or formulas as it uses in making adjustments under the Johnson Controls, Inc. 2000 Stock Option Plan and, upon its approval by the Company’s shareholders, the Johnson Controls, Inc. 2007 Stock Option Plan.
9. **Termination and Amendment of Plan**. The Board of Directors (acting through the Committee to the extent permitted by law) may at any time terminate the Plan and may amend the Plan, not more often than once in any six month period, as it shall deem advisable including (without limiting the generality of the foregoing) any amendments deemed by the Board of Directors to be necessary or advisable to assure conformity of the Plan with any requirements of state and federal laws or regulations now or hereafter in effect; provided, however, that the Board of Directors may not, without further approval by the shareholders of the Company make any modifications which, under Rule 16b-3 or the rules of the New York Stock Exchange, require such approval.
10. **Rights as a Shareholder**. An Outside Director shall have no rights as a shareholder with respect to Common Stock granted under this Plan until the date of issuance of the stock certificate to him or her. No adjustment will be made for dividends or other rights for which the record date is prior to the date such Common Stock is issued. All dividends and voting rights accrue as of the Grant Date to the Outside Director.
11. **Governing Law**. The Plan, all awards hereunder, and all determinations made and actions taken pursuant to the Plan shall be governed by the laws of the State of Wisconsin and construed in accordance therewith, to the extent not otherwise governed by the Internal Revenue Code or the laws of the United States.
12. **Unfunded Plan**. This Plan shall be unfunded. No person shall have any rights greater than those of a general creditor of the Company.

Johnson Controls, Inc.
5757 North Green Bay Avenue
Post Office Box 591
Milwaukee, WI 53201-0591
Tel. 414-524-2233
Fax 414-524-3311

John M. Barth
Chairman and
Chief Executive Officer

Mr. Giovanni Fiori
Via Riaffrico, 38
51016 Montecatini Terme
(Pistoia) ITALY



Dear John:

Please refer to the letter between you and Johnson Controls, Inc. dated November 29, 2004 amending your Executive Employment Agreement. This is to confirm that we have mutually agreed upon January 1, 2008, as your retirement date for purposes of that letter.

To evidence your confirmation, please sign both copies of this letter and keep on copy for your personal files.

GIOVANNI FIORI

JOHNSON CONTROLS, INC.

_____/s/

By: _____/s/
John M. Barth

Date: November 3, 2006

Title: Chairman & CEO

Date: November 6, 2006

**JOHNSON CONTROLS, INC.
RETIREMENT RESTORATION PLAN**

ARTICLE 1.
PURPOSE AND DURATION

Section 1.1. Purpose. The purpose of the Johnson Controls Retirement Restoration Plan (formerly the Equalization Benefit Plan) is to restore retirement benefits to certain participants in the Company's or its subsidiary's pension or savings plans whose benefits under said plans are or will be limited by reason of Code Sections 401(a)(17), 401(k), 401(m), 402(g) and/or 415, and/or by reason of the election of such employees to defer income or reduce salary pursuant to this Plan or to defer annual incentive payments pursuant to the Johnson Controls, Inc. Executive Deferred Compensation Plan. This Plan is completely separate from the tax-qualified pension plans maintained by the Company and is not funded or qualified for special tax treatment under the Code. The Plan is intended to be an unfunded plan covering a select group of management and highly compensated employees for purposes of ERISA.

Section 1.2. Duration of the Plan. The Plan became effective as of January 1, 1980, and was most recently amended and restated effective January 1, 2005, and includes amendments through January 1, 2006. The provisions of the Plan as amended and restated apply to each individual with an interest hereunder on or after January 1, 2005. The Plan shall remain in effect until terminated pursuant to Article 8.

ARTICLE 2.
DEFINITIONS AND CONSTRUCTION

Section 2.1. Definitions. Wherever used in the Plan, the following terms shall have the meanings set forth below and, where the meaning is intended, the initial letter of the word is capitalized:

- (a) "Actuarial Equivalent" means a benefit of equivalent value determined in accordance with acceptable actuarial principles, utilizing the interest and mortality rates specified for actuarial equivalence in the Pension Plan.
 - (b) "Administrator" means the Employee Benefits Policy Committee of the Company.
 - (c) "Affiliate" means each entity that is required to be included in the Company's controlled group of corporations within the meaning of Code Section 414(b), or that is under common control with the Company within the meaning of Code Section 414(c).
 - (d) "Annual Incentive Plan" means the annual incentive portion only of the Johnson Controls, Inc. Annual and Long-Term Incentive Performance Plan as from time to time amended and in effect and any successor to such plan maintained by the Company or any successor or affiliate of the Company.
 - (e) "Board" means the Board of Directors of the Company.
-

(f) “Code” means the Internal Revenue Code of 1986, as interpreted by regulations and rulings issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of the Code shall be deemed to include reference to any successor provision thereto.

(g) “Committee” means the Compensation Committee of the Board.

(h) “Company” means Johnson Controls, Inc., a Wisconsin corporation, and its successors as provided in Article 13.

(i) “ERISA” means the Employee Retirement Income Security Act of 1974, as interpreted by regulations and rulings issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of ERISA shall be deemed to include reference to any successor provision thereto.

(j) “Exchange Act” means the Securities Exchange Act of 1934, as interpreted by regulations and rules issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of the Exchange Act shall be deemed to include reference to any successor provision thereto.

(k) “Fair Market Value” means with respect to a Share, except as otherwise provided herein, the closing sales price of a Share on the New York Stock Exchange as of 4:00 p.m. EST on the date in question (or the immediately preceding trading day if the date in question is not a trading day), and with respect to any other property, such value as is determined by the Administrator.

(l) “Investment Options” means the Share Unit Account and any other options made available by the Administrator, which shall be used for the purpose of measuring hypothetical investment experience attributable to a Participant’s Savings Supplement Account.

(m) “Participant” means an employee of the Company or a subsidiary who is described in an applicable Appendix hereto; *provided* that the Committee shall limit the foregoing group of eligible employees to a select group of management and highly compensated employees, as determined by the Committee in accordance with ERISA. Where the context so requires, a Participant also means a former employee entitled to receive a benefit hereunder.

(n) “Pension Plan” means the Johnson Controls Pension Plan, a defined benefit pension plan, and any successor to such plan maintained by the Company.

(o) “Pension Plan Benefits” means the aggregate monthly benefits payable under the Pension Plan.

(p) “Pension Plan Supplement Benefits” means the aggregate monthly benefits payable under an applicable Appendix hereto as a supplement to a Participant’s Pension Plan Benefits.

(q) “Savings Plan” means the Johnson Controls Savings and Investment (401(k)) Plan, a defined contribution plan, and any successor to such plan maintained by the Company.

(r) “Savings Supplement Account” means the record keeping account or accounts maintained to record the interest of each Participant under Article 5 of the Plan and the applicable Appendices. A Savings Supplement Account is established for record keeping purposes only and not to reflect the physical segregation of assets on the Participant’s behalf, and may consist of such subaccounts or balances as the Administrator may determine to be necessary or appropriate.

(s) “Separation from Service” means a Participant’s termination of employment from the Company and all Affiliates, subject to the following:

(1) If a Participant takes a leave of absence from the Company or an Affiliate for purposes of military leave, sick leave or other bona fide leave of absence, the Participant’s employment will be deemed to continue for the first six (6) months of the leave of absence, or if longer, for so long as the Participant’s right to reemployment is provided by either by statute or by contract. If the period of the leave exceeds six (6) months and the Participant’s right to reemployment is not provided by either statute or contract, the Participant will be considered to have incurred a Separation from Service on the first day of the seventh (7th) month of the leave of absence.

(2) If a Participant provides insignificant services to the Company or an Affiliate, the Participant will be deemed to have incurred a Separation from Service. For this purpose, a Participant is not considered to be providing insignificant services if he or she provides services at an annual rate that is at least equal to twenty percent (20%) of the services rendered by such individual, on average, during the immediately preceding three (3) calendar years of employment (or his or her actual period of employment if less) and the annual remuneration for such services is at least equal to twenty percent (20%) of the average annual remuneration earned during the final three (3) full calendar years of employment (or his or her actual period of employment, if less).

(3) If a Participant continues to provide services to the Company or an Affiliate in a capacity other than as an employee, the Participant will not be deemed to have Separated from Service if the Participant is providing services at an annual rate that is at least fifty percent (50%) of the services rendered by such individual, on average, during the immediately preceding three (3) calendar years of employment (or his or her actual period of employment if less) and the annual remuneration for such services is at least fifty percent (50%) of the average annual remuneration earned during the final three (3) full calendar years of employment (or his or her actual period of employment if less).

(t) “Share” means a share of common stock of the Company.

(u) “Share Unit Account” means the account described in Section 5.4, which is deemed invested in Shares.

(v) “Share Units” means the hypothetical Shares that are credited to the Share Unit Accounts in accordance with Section 5.3.

(w) “Spouse” means the person to whom a Participant is lawfully married pursuant to Federal law; *provided* that for purposes of payment of the death benefit under Section 4.3, “Spouse” means the person to whom a deceased Participant was lawfully married pursuant to Federal law throughout the 1-year period preceding the date of his or her death.

(x) “Unforeseeable Emergency” means a severe financial hardship of the Participant, resulting from any of the following:

- (1) an illness or accident of the Participant, his or her spouse or dependent (as defined in Code Section 152(a));
- (2) a loss of the Participant’s property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, as a result of a natural disaster); or
- (3) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, as determined by the Administrator.

(y) “Valuation Date” means each day when the United States financial markets are open for business, as of which the Administrator will determine the value of each Account and will make allocations to Accounts.

Section 2.2. Construction. Wherever any words are used in the masculine, they shall be construed as though they were used in the feminine in all cases where they would so apply; and wherever any words are used in the singular or the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply. Titles of articles and sections are for general information only, and the Plan is not to be construed by reference to such items.

Section 2.3. Severability. In the event any provision of the Plan is held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

ARTICLE 3. **ADMINISTRATION**

Section 3.1. General. The Committee shall have overall authority with respect to administration of the Plan, *provided* that the Administrator shall have responsibility for the general operation and daily administration of the Plan as specified herein. If at any time the Committee shall not be in existence, then the administrative functions of the Committee shall be

assumed by the Board (with the assistance of the Administrator), and any references herein to the Committee shall be deemed to include references to the Board.

Section 3.2. Authority and Responsibility. In addition to the authority specifically provided herein, the Committee and the Administrator shall have the discretionary authority to take any action or make any determination it deems necessary for the proper administration of the Plan with respect to its respective duties, including but not limited to the power and authority to: (a) prescribe rules and regulations for the administration of the Plan; (b) prescribe forms for use with respect to the Plan; (c) interpret and apply all of the Plan's provisions, reconcile inconsistencies or supply omissions in the Plan's terms; (d) make appropriate determinations, including factual determinations, and calculations; and (e) prepare all reports required by law. Any action taken by the Committee shall be controlling over any contrary action of the Administrator. The Committee or Administrator may delegate its ministerial duties to a third party and to the extent of such delegation, references to the Committee or Administrator hereunder shall mean such delegatee.

Section 3.3. Decisions Binding. The Committee's and the Administrator's determinations shall be final and binding on all parties with an interest hereunder, unless determined to be arbitrary and capricious.

Section 3.4. Procedures for Administration. The Committee's determinations must be made by not less than a majority of its members present at the meeting (in person or otherwise) at which a quorum is present, or by written majority consent, which sets forth the action, is signed by the members of the Committee and filed with the minutes for proceedings of the Committee. A majority of the entire Committee shall constitute a quorum for the transaction of business. Service on the Committee shall constitute service as a director of the Company so that the Committee members shall be entitled to indemnification, limitation of liability and reimbursement of expenses with respect to their Committee services to the same extent that they are entitled under the Company's By-laws and Wisconsin law for their services as directors of the Company. The Administrator's determinations shall be made in accordance with procedures it establishes.

Section 3.5. Restrictions to Comply with Applicable Law. All transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 under the Exchange Act. The Committee and the Administrator shall administer the Plan so that transactions under the Plan will be exempt from or comply with Section 16 of the Exchange Act, and shall have the right to restrict or rescind any transaction, or impose other rules and requirements, to the extent it deems necessary or desirable for such exemption or compliance to be met.

ARTICLE 4. **PENSION PLAN SUPPLEMENT**

Section 4.1. Eligibility for and Amount of Benefits. Participants shall be eligible for Pension Plan Supplement Benefits in accordance with the terms of the applicable Appendix.

Section 4.2. Payment of Pension Plan Supplement Benefits. The following provisions apply to all Participants except those specified on the Addendum.

(a) Annuity Starting Date. The annuity starting date of a Participant's vested Pension Plan Supplement Benefit shall be the later to occur of: (i) the first day of the month coincident with or following the Participant's attainment of age fifty-five (55) (even if the Participant does not survive to such date) or (ii) the first day of the month coincident with or following the Participant's Separation from Service.

(b) Timing of Payment. Payment of the vested Pension Plan Supplement Benefit shall begin on the Participant's annuity starting date, or if later, the first day of the seventh month following the month in which the Participant's Separation from Service occurs (the "Delayed Payment Date"). If monthly payments are to begin on a Delayed Payment Date, then all monthly payments that were due from the annuity starting date to the Delayed Payment Date shall be accumulated and paid in a lump sum on the Delayed Payment Date, and the Participant shall receive an additional payment of interest (equal to the interest rate assumption used for non-lump sum Actuarial Equivalence) calculated on a simple (i.e. non-compounded) basis from the Annuity Starting Date to the Delayed Payment Date.

(c) Normal Form of Payment. Subject to the Participant's election of an alternative form of benefit under subsection (d),

(1) For a Participant who has no Spouse on the annuity starting date, payment shall be made in the form of a single life annuity, which provides monthly payments for the life of the Participant, beginning on the annuity starting date and ending with the payment due for the month in which the Participant's death occurs, in the amount calculated under the applicable Appendix.

(2) For a Participant who has a Spouse on the annuity starting date, payment shall be made in the form of a joint and fifty percent (50%) survivor annuity, which provide monthly payments for the life of the Participant in reduced amounts which are the Actuarial Equivalent of the payments calculated under the applicable Appendix, and in the event the Participant predeceases his Spouse, monthly payments equal to fifty percent (50%) of such reduced amounts shall be continued to such Spouse for the Spouse's life. Payments of such benefits shall end with the payment due for the month in which the later of the death of the Participant or his Spouse (as applicable) occurs.

(3) If the Participant dies before his annuity starting date under this Plan and payment is to be made to the Spouse of the Participant, payment shall be made in the form of a single life annuity, which provides monthly payments for the life of the Spouse, beginning on the annuity starting date and ending with the payment due for the month in which the Spouse's death occurs, in the amount calculated under the applicable Appendix. If the Spouse dies before the annuity starting date, no benefit shall be payable under this Article 4.

(d) Optional Forms of Benefit. In lieu of the normal form of payment described in subsection (c), a Participant may elect at any time prior to his annuity starting date to receive his benefit in one of the following optional forms of payment. Payments made under each optional form of payment shall be the Actuarial Equivalent of the benefit payment amount determined

under the applicable Appendix. The Participant's election of an optional form of distribution shall be made in the form and manner and within such timeframes as the Administrator may prescribe and shall be irrevocable once benefit payments commence.

(1) Joint and Survivor Annuity : The joint and survivor annuity form provides monthly payments to the Participant while living and, in the event the Participant predeceases his or her joint annuitant, monthly payments equal to 100%, 75% or 50% (as elected by the Participant) of the Participant's monthly payments shall be continued to such joint annuitant for his or her life. Such payments shall end with the payment due on the first day of the month in which the later of the death of the Participant or the joint annuitant (as applicable) occurs.

(2) Life Only Annuity : The Life Only Annuity form provides monthly payments to the Participant for life, ending with the payment due on the first day of the month in which the death of the Participant occurs.

(3) Life Annuity – 10 Years Certain : The Life Annuity – 10 Years Certain form provides monthly payments to the Participant while living and, in the event the Participant dies before receiving 120 monthly payments, such payments will continue to the Participant's designated beneficiary. Such payments shall end with the payment due on the first day of the month in which the death of the Participant occurs or with the 120th payment, as applicable.

(e) Earlier Distribution . Notwithstanding the foregoing, if an amount deferred under this Plan is required to be included in income under Code Section 409A prior to the date such amount is actually distributed, a Participant shall receive a distribution, in a lump sum as soon as practicable after the date the Plan fails to meet the requirements of Code Section 409A, of the amount required to be included in the Participant's income as a result of such failure.

(f) Delay in Payment . Notwithstanding the foregoing, if a distribution will violate the terms of a loan agreement or other similar contract to which the Company or an Affiliate, as applicable, is a party, and if any such violation will cause material harm to the Company or Affiliate, the distribution shall be delayed until the first date that a violation will not occur or the violation will not cause material harm to the Company or an Affiliate.

Section 4.3. Death Benefit . The Spouse, if any, of a deceased Participant shall be entitled to a pre-retirement surviving spouse's benefit if the Participant's death occurs before his or her Annuity Starting Date and after the Participant has become vested in his or her Pension Plan Supplement Benefit. The amount of the pre-retirement surviving spouse benefit payable to the Participant's Spouse shall be equal to the amount that would have been payable to the Spouse had the Participant (i) ceased employment; (ii) commenced a Pension Plan Supplement Benefit at the Annuity Starting Date having elected a joint and 50% survivor annuity form of benefit payment with his or her Spouse as contingent annuitant; and (iii) died the next day. Payments shall be made in the form of a single life annuity for the life of the Spouse and shall commence on the Annuity Starting Date.

ARTICLE 5.
SAVINGS PLAN SUPPLEMENT

Section 5.1. Eligibility for and Amount of Benefits . Participants shall be eligible for a Savings Plan Supplement Account in accordance with the terms of the applicable Appendix.

Section 5.2. Investment Election . Amounts credited to a Participant's Savings Supplement Account shall reflect the investment experience of the Investment Options selected by the Participant. The Participant may make an initial investment election at the time of enrollment in the Plan. A Participant may also elect to reallocate his or her Savings Supplement Account, and may elect to allocate any future deferrals, among the various Investment Options from time to time. Such investment elections shall remain in effect until changed by the Participant. All investment elections shall become effective as soon as practicable after receipt of such election, and must be made in the form and manner and within such time periods as the Administrator may prescribe in order to be effective. In the absence of an effective election, the Participant's Savings Supplement Account shall be deemed invested in the default fund specified for the Savings Plan (or any successor plan thereto). Deferrals will be deemed invested in an Investment Option as of the date on which the deferrals are allocated under the Plan as described in the Appendices.

On each Valuation Date, the Administrator or its designee shall credit the deemed investment experience with respect to the selected Investment Options to each Participant's Savings Supplement Account.

Notwithstanding anything herein to the contrary, the Company retains the right to allocate actual amounts hereunder without regard to a Participant's request.

Section 5.3. Valuation of Share Unit Account . When any amounts are to be allocated to a Share Unit Account (whether in the form of deferrals or amounts that are deemed transferred from another Investment Option), such amount shall be converted to whole and fractional Share Units, by dividing the amount to be allocated by the Fair Market Value of a Share on the effective date of such allocation. If any dividends or other distributions are paid on Shares while a Participant has Share Units credited to his Account, such Participant shall be credited with a dividend award equal to the amount of the cash dividend paid or Fair Market Value of other property distributed on one Share, multiplied by the number of Share Units credited to his Share Unit Account on the date the dividend is declared. The dividend award shall be converted into additional Share Units as provided above using the Fair Market Value of a Share on the date the dividend is paid or distributed. Any other provision of this Plan to the contrary notwithstanding, if a dividend is declared on Shares in the form of a right or rights to purchase shares of capital stock of the Company or any entity acquiring the Company, no additional Share Units shall be credited to the Participant's Share Unit Account with respect to such dividend, but each Share Unit credited to a Participant's Share Unit Account at the time such dividend is paid, and each Share Unit thereafter credited to the Participant's Share Unit Account at a time when such rights are attached to Shares, shall thereafter be valued as of any point in time on the basis of the aggregate of the then Fair Market Value of one Share plus the then Fair Market Value of such right or rights then attached to one Share.

In the event of any merger, share exchange, reorganization, consolidation, recapitalization, stock dividend, stock split or other change in corporate structure of the Company affecting Shares, the Committee may make appropriate equitable adjustments with respect to the Share Units credited to the Share Unit Account of each Participant, including without limitation, adjusting the date as of which such units are valued and/or distributed, as the Committee determines is necessary or desirable to prevent the dilution or enlargement of the benefits intended to be provided under the Plan.

Section 5.4. Securities Law Restrictions . Notwithstanding anything to the contrary herein, all elections under this Article by a Participant who is subject to Section 16 of the Exchange Act are subject to review by the Administrator prior to implementation. In accordance with Section 3.5, the Administrator may restrict additional transactions, rescind transactions, or impose other rules and procedures, to the extent deemed desirable by the Administrator in order to comply with the Exchange Act, including, without limitation, application of the review and approval provisions of this Section 5.4 to Participants who are not subject to Section 16 of the Exchange Act.

Section 5.5. Accounts are For Record Keeping Purposes Only . The Savings Supplement Accounts and the record keeping procedures described herein serve solely as a device for determining the amount of benefits accumulated by a Participant under Article 5 of the Plan, and shall not constitute or imply an obligation on the part of the Company or any Affiliate to fund such benefits. In any event, the Company or an Affiliate may, in its discretion, set aside assets equal to part or all of such account balances and invest such assets in Company stock, life insurance or any other investment deemed appropriate. Any such assets, including Company stock, shall be and remain the sole property of the employer that set aside such assets, and a Participant shall have no proprietary rights of any nature whatsoever with respect to such assets.

Section 5.6. Payment of Benefits .

(a) Distribution Election . Subject to the terms of an applicable Appendix, a Participant shall make a distribution election with respect to his Savings Supplement Account in such form and manner as the Administrator may prescribe. The election shall specify whether distributions shall be made in a single lump sum or in annual installments of from two (2) to ten (10) years. Such election shall be irrevocable. If no valid election is in effect, distributions shall be made in ten (10) annual installments.

(b) Time of Distribution.

(1) Separation from Service . Upon a Participant's Separation from Service for any reason, the Participant, or his Beneficiary in the event of his death, shall be entitled to payment of the vested amount accumulated in such Participant's Savings Supplement Account.

(2) Earlier Distribution . Notwithstanding the foregoing, a distribution may be made prior to the Participant's Separation from Service as follows:

(A) If an amount deferred under this Plan is required to be included in income under Code Section 409A prior to the date such amount is actually distributed, a Participant shall receive a distribution, in a lump sum as

soon as practicable after the date the Plan fails to meet the requirements of Code Section 409A, of the amount required to be included in the Participant's income as a result of such failure.

(B) If an amount under the Plan is required to be immediately distributed in a lump sum under a domestic relations order within the meaning of Code Section 414(p)(1)(B), it may be distributed according to the terms of such order, *provided* the Participant holds the Administrator harmless with respect to such distribution. The Plan shall not distribute amounts required to be distributed under a domestic relations order other than in the limited circumstance specifically stated herein.

(c) Manner of Distribution. The Participant's Savings Supplement Account shall be paid in cash in the following manner:

(1) Lump Sum. If payment is to be made in a lump sum,

(A) for those Participants whose Separation from Service occurs from January 1 through June 30 of a year, payment shall be made in the first calendar quarter of the following year, and

(B) for those Participants whose Separation from Service occurs from July 1 through December 31 of a year, payment shall be made in the third calendar quarter of the following year.

The lump sum payment shall equal the vested balance of the Participant's Savings Supplement Account as of the Valuation Date immediately preceding the distribution date.

(2) Installments. If payment is to be made in annual installments, the first annual payment shall be made:

(A) for those Participants whose Separation from Service occurs from January 1 through June 30 of a year, in the first calendar quarter of the following year, and

(B) for those Participants whose Separation from Service occurs during the period from July 1 through December 31 of a year, in the third calendar quarter of the following year.

The amount of the first annual payment shall equal the value of $1/10^{\text{th}}$ (or $1/9^{\text{th}}$, $1/8^{\text{th}}$, $1/7^{\text{th}}$, etc. depending on the number of installments elected) of the vested balance of the Participant's Savings Supplement Account as of the Valuation Date immediately preceding the distribution date. All subsequent annual payments shall be made in the first calendar quarter of each subsequent calendar year, and shall be equal the value of $1/9^{\text{th}}$ (or $1/8^{\text{th}}$, $1/7^{\text{th}}$, $1/6^{\text{th}}$, etc. depending on the number of installments elected) of the vested balance of the Participant's Savings Supplement Account as of the Valuation Date immediately preceding the

distribution date. The final annual installment payment shall equal the then remaining vested balance of such Savings Supplement Account as of the Valuation Date preceding such final payment date.

(3) Delay in Payment. Notwithstanding the foregoing, a distribution may be delayed beyond the date it would have otherwise been paid under paragraph (1) or (2) in the following circumstances:

(A) If the distribution will violate the terms of a loan agreement or other similar contract to which the Company or an Affiliate, as applicable, is a party, and if any such violation will cause material harm to the Company or Affiliate, the distribution shall be delayed until the first date that a violation will not occur or the violation will not cause material harm to the Company or an Affiliate.

(B) If the distribution will violate the terms of Section 16(b) of the Exchange Act or other Federal securities laws, or any other applicable law, then the distribution shall be delayed until the earliest date on which making the distribution will not violate such law.

Section 5.7. Death Benefit

(a) Distribution. In the event of the Participant's death prior to receiving all payments due hereunder, the vested balance of the Participant's Savings Supplement Account shall be paid to the Participant's Beneficiary in a cash lump sum as soon as practicable after the Participant's death.

(b) Designation of Beneficiary. Each Participant may designate a beneficiary in such form and manner and within such time periods as the Administrator may prescribe. A Participant can change his beneficiary designation at any time, *provided* that each beneficiary designation shall revoke the most recent designation, and the last designation received by the Administrator (or its delegatee) while the Participant was alive shall be given effect. If a Participant designates a beneficiary without providing in the designation that the beneficiary must be living at the time of each distribution, the designation shall vest in the beneficiary all of the distribution whether payable before or after the beneficiary's death, and any distributions remaining upon the beneficiary's death shall be made to the beneficiary's estate. In the event there is no valid beneficiary designation in effect at the time of the Participant's death, in the event the Participant's designated beneficiary does not survive the Participant, or in the event that the beneficiary designation provides that the Beneficiary must be living at the time of each distribution and such designated Beneficiary does not survive to a distribution date, the Participant's estate will be deemed the Beneficiary and will be entitled to receive payment. If a Participant designates his spouse as a beneficiary, such beneficiary designation automatically shall become null and void on the date of the Participant's divorce or legal separation from such spouse, *provided* the Administrator has notice of such divorce or legal separation prior to payment.

Section 5.8. Distribution in Event of Unforeseeable Emergency . If requested by a Participant while in the employ of the Company or an Affiliate and if the Administrator determines that an Unforeseeable Emergency has occurred, all or part of the Participant's vested Account may be paid out to the Participant in a cash lump sum. The amount to be distributed to the Participant shall only be such amount as is needed to alleviate the Participant's Unforeseeable Emergency, including any Federal, state or local income taxes or penalties reasonably anticipated to result from the distribution, after taking into account the extent to which the emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets (to the extent such liquidation would not itself cause a severe financial hardship), or by cessation of deferrals under the Plan.

ARTICLE 6.

NON-ALIENATION OF PAYMENTS

Except as specifically provided herein, benefits payable under the Plan shall not be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment, garnishment or encumbrance of any kind. Any attempt to alienate, sell, transfer, assign, pledge or otherwise encumber any such benefit payment, whether currently or thereafter payable, shall not be recognized by the Administrator or the Company. Any benefit payment due hereunder shall not in any manner be liable for or subject to the debts or liabilities of any Participant or other person entitled thereto. If any such person shall attempt to alienate, sell, transfer, assign, pledge or encumber any benefit payments to be made to that person under the Plan or any part thereof, or if by reason of such person's bankruptcy or other event happening at any time, such payments would devolve upon anyone else or would not be enjoyed by such person, then the Administrator, in its discretion, may terminate such person's interest in any such benefit payment, and hold or apply it to or for the benefit of that person, the spouse, children or other dependents thereof, or any of them, in such manner as the Administrator deems proper.

ARTICLE 7.

LIMITATION OF RIGHTS

Section 7.1. No Right to Employment . Participation in this Plan, or any modifications thereof, or the payments of any benefits hereunder, shall not be construed as giving to any person any right to be retained in the service of the Company or any Affiliate, limiting in any way the right of the Company or any Affiliate to terminate such person's employment at any time, evidencing any agreement or understanding that the Company or any Affiliate will employ such person in any particular position or at any particular rate of compensation or guaranteeing such person any right to receive any other form or amount of remuneration from the Company or any Affiliate.

Section 7.2. No Right to Benefits .

(a) Unsecured Claim . The right of a Participant, his spouse or his Beneficiary to receive a distribution hereunder shall be an unsecured claim, and neither the Participant, his spouse nor any Beneficiary shall have any rights in or against any amount credited to his Savings Supplement Account, any accrued benefit under Article 4 or any other specific assets of the Company or an Affiliate. The right of a Participant or Beneficiary to the payment of benefits under this Plan shall not be assigned, encumbered, or transferred, except as permitted under

Section 5.7. The rights of a Participant hereunder are exercisable during the Participant's lifetime only by him or his guardian or legal representative.

(b) Contractual Obligation. The Company or an Affiliate may authorize the creation of a trust or other arrangements to assist it in meeting the obligations created under the Plan. However, any liability to any person with respect to the Plan shall be based solely upon any contractual obligations that may be created pursuant to the Plan. No obligation of the Company or an Affiliate shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company or any Affiliate. Nothing contained in this Plan and no action taken pursuant to its terms shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company or an Affiliate and any Participant or Beneficiary, or any other person.

ARTICLE 8.

AMENDMENT OR TERMINATION

Section 8.1. Amendment. The Committee may at any time amend the Plan, including but not limited to modifying the terms and conditions applicable to (or otherwise eliminating) accruals or deferrals to be made on or after the amendment date; *provided, however*, that no amendment may reduce or eliminate any vested accrued benefit under Article 4 or the Savings Supplement Account balance accrued under Article 5 to the date of such amendment (except as benefit may be reduced as a result of the amount payable under the Pension Plan or except as such Savings Supplement Account balance may be reduced as a result of investment losses allocable to such account) without a Participant's consent except as otherwise specifically provided herein; and *provided further* that any amendment that expands the class of employees eligible for participation under the Plan or that materially increases the amount of benefits payable hereunder must be approved by the Board. In addition, the Administrator may at any time amend the Plan to make administrative or ministerial changes or changes necessary to comply with applicable law.

Section 8.2. Termination. The Committee may terminate the Plan in accordance with the following provisions. Upon termination of the Plan, any deferral elections then in effect shall be cancelled and any accruals under Article 4 shall cease as if the termination date of the Plan were the annuity starting date.

- (1) The Committee may terminate the Plan within twelve (12) months of a corporate dissolution taxed under Code Section 331, or with the approval of a bankruptcy court pursuant to 11 U.S.C. §503(b)(1)(A), *provided* that the amounts accrued under the Plan but not yet paid are distributed to the Participants, spouses or Beneficiaries, as applicable, in a single sum payment, regardless of any distribution election then in effect, in the later of: (A) the calendar year in which the Plan termination occurs or (B) the first calendar year in which payment is administratively practicable.
- (2) The Committee may terminate the Plan at any time during the period that begins thirty (30) days prior and ends twelve (12)

months following a Change of Control, *provided* that all substantially similar arrangements (within the meaning of Code Section 409A) sponsored by the Company are terminated, so that all participants under similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of the date of termination of the arrangements.

(3) The Committee may terminate the Plan at any other time. In such event, all amounts accrued under the Plan but not yet paid will be distributed to all Participants, spouses or Beneficiaries, as applicable, in a single sum payment no earlier than twelve (12) months (and no later than twenty-four (24) months) after the date of termination, regardless of any distribution election then in effect. This provision shall not be effective unless all other plans required to be aggregated with this Plan under Code Section 409A are also terminated.

Notwithstanding the foregoing, any payment that would otherwise be paid during the twelve (12)-month period beginning on the Plan termination date pursuant to the terms of the Plan shall be paid in accordance with such terms. In addition, the Company or any Affiliate shall be prohibited from adopting a similar arrangement within five (5) years following the date of the Plan's termination, unless any individual who was a Participant under this Plan is excluded from participating thereunder for such five (5) year period.

Section 8.4. Entitlement to Benefits. It is understood that an individual's entitlement to Pension Plan Supplement Benefits may be automatically reduced as the result of an increase in his Pension Plan Benefits. Nothing herein shall be construed in any way to limit the right of the Company to amend or modify the Pension Plan or Savings Plan.

ARTICLE 9.
SPECIAL RULES APPLICABLE IN THE EVENT OF A
CHANGE OF CONTROL OF THE COMPANY

Section 9.1. Acceleration of Payments. Notwithstanding any other provision of this Plan, within thirty (30) days after a Change of Control, each Participant (or any spouse or Beneficiary thereof entitled to receive payments hereunder), including Participants (or spouses or Beneficiaries) receiving installment or annuity payments under the Plan, shall be entitled to receive a lump sum payment in cash of all amounts accumulated in such Participant's Savings Supplement Account and the single sum Actuarial Equivalent value of the Participant's accrued Pension Plan Supplement Benefits. Such payment shall be made as soon as practicable following the Change of Control.

In determining the amount accumulated in a Participant's Share Unit Account, each Share Unit shall have a value equal to the higher of (a) the highest reported sales price, regular way, of a share of the Company's common stock on the Composite Tape for New York

Stock Exchange Listed Stocks (the “Composite Tape”) during the sixty-day period prior to the date of the Change of Control of the Company and (b) if the Change of Control of the Company is the result of a transaction or series of transactions described in Section 9.2(a), the highest price per Share of the Company paid in such transaction or series of transactions.

Section 9.2. Definition of a Change of Control. A Change of Control means any of the following events, *provided* that each such event would constitute a change of control within the meaning of Code Section 409A:

(a) The acquisition, other than from the Company, by any individual, entity or group of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act), including in connection with a merger, consolidation or reorganization, of more than either:

- (1) Fifty percent (50%) of the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or
- (2) Thirty-five (35%) of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Company Voting Securities”),

provided, however, that any acquisition by (x) the Company or any of its subsidiaries, or any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries or (y) any corporation with respect to which, following such acquisition, more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, shall not constitute a Change in Control of the Company; or

(b) Individuals who, as of January 1, 2005, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board during any 12-month period, *provided* that any individual becoming a director subsequent to January 1, 2005, whose election or nomination for election by the Company’s shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board, shall be considered as though such individual were a member of the Incumbent Board; or

(c) A complete liquidation or dissolution of the Company or sale or other disposition of all or substantially all of the assets of the Company other than to a corporation with respect to which, following such sale or disposition, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial

owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, immediately prior to such sale or disposition. For purposes hereof, “a sale or other disposition of all or substantially all of the assets of the Company” will not be deemed to have occurred if the sale involves assets having a total gross fair market value of less than forty percent (40%) of the total gross fair market value of all assets of the Company immediately prior to the acquisition. For this purpose, “gross fair market value” means the value of the assets without regard to any liabilities associated with such assets.

For purposes of this Section 9.2, persons will not be considered to be acting as a “group” solely because they purchase or own stock of the Company at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a “group” if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. If a person, including an entity, owns stock in the Company and any other corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in such corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the Company.

Section 9.3. Maximum Payment Limitations.

(a) Limit on Payments. Except as provided in subsection (b) below, if any portion of the payments or benefits described in this Plan or under any other agreement with or plan of the Company or a subsidiary (in the aggregate, “Total Payments”), would constitute an “excess parachute payment”, then the Total Payments to be made to the Participant shall be reduced such that the value of the aggregate Total Payments that the Participant is entitled to receive shall be one dollar (\$1) less than the maximum amount which the Participant may receive without becoming subject to the tax imposed by Section 4999 of the Code or which the Company may pay without loss of deduction under Section 280G(a) of the Code; *provided* that this Section shall not apply in the case of a Participant who has in effect a valid employment contract providing that the Total Payments to the Participant shall be determined without regard to the maximum amount allowable under Section 280G of the Code. The terms “excess parachute payment” and “parachute payment” shall have the meanings assigned to them in Section 280G of the Code, and such “parachute payments” shall be valued as provided therein. Present value shall be calculated in accordance with Section 280G(d)(4) of the Code. Within forty (40) days following delivery of notice by the Company to the Participant of its belief that there is a payment or benefit due the Participant which will result in an excess parachute payment, the Participant and the Company, at the Company’s expense, shall obtain the opinion (which need not be unqualified) of nationally recognized tax counsel selected by the Company’s independent auditors and acceptable to the Participant in his sole discretion (which may be regular outside counsel to the Company), which opinion sets forth (A) the amount of the Base Period Income, (B) the amount and present value of Total Payments and (C) the amount and present value of any excess parachute payments determined without regard to the limitations of this Section. As used in this Section, the term “Base Period Income” means an amount equal to the Participant’s “annualized includible compensation for the base period” as defined in Section 280G(d)(1) of the

Code. For purposes of such opinion, the value of any noncash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code, which determination shall be evidenced in a certificate of such auditors addressed to the Company and the Participant. Such opinion shall be addressed to the Company and the Participant and shall be binding upon the Company and the Participant. If such opinion determines that there would be an excess parachute payment, the payments hereunder that are includible in Total Payments or any other payment or benefit determined by such counsel to be includible in Total Payments shall be reduced or eliminated as specified by the Participant in writing delivered to the Company within thirty days of his receipt of such opinion or, if the Participant fails to so notify the Company, then as the Company shall reasonably determine, so that under the bases of calculations set forth in such opinion there will be no excess parachute payment. If such legal counsel so requests in connection with the opinion required by this Section, the Participant and the Company shall obtain, at the Company's expense, and the legal counsel may rely on in providing the opinion, the advice of a firm of recognized executive compensation consultants as to the reasonableness of any item of compensation to be received by the Participant. If the provisions of Sections 280G and 4999 of the Code are repealed without succession, then this Section shall be of no further force or effect.

(b) **Employment Contract Governs.** The provisions of subsection (a) above shall not apply to a Participant whose employment is governed by an employment contract that provides for Total Payments in excess of the limitation described in subsection (a) above.

ARTICLE 10.

ERISA PROVISIONS

Section 10.1. Claims Procedures.

(a) **Initial Claim.** If a Participant, spouse or Beneficiary (the "claimant") believes that he is entitled to a benefit under the Plan that is not provided, the claimant or his legal representative shall file a written claim for such benefit with the Committee within one hundred and eighty (180) days from the date the claimant receives the distribution giving rise to the claim or, if earlier, knows of the facts giving rise to the claim. The Administrator shall review the claim within ninety (90) days following the date of receipt of the claim; *provided* that the Administrator may determine that an additional ninety (90)-day extension is necessary due to circumstances beyond the Administrator's control, in which event the Administrator shall notify the claimant prior to the end of the initial period that an extension is needed, the reason therefor and the date by which the Administrator expects to render a decision. If the claimant's claim is denied in whole or part, the Administrator shall provide written notice to the claimant of such denial. The written notice shall include the specific reason(s) for the denial; reference to specific Plan provisions upon which the denial is based; a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and a description of the Plan's review procedures (as set forth in subsection (b)) and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under section 502(a) of ERISA following an adverse determination upon review. If the claimant does not receive a written decision within the time period(s) described above, the claim shall be deemed denied on the last day of such period(s).

(b) Request for Appeal. The claimant has the right to appeal the Administrator's decision by filing a written appeal to the Committee within sixty (60) days after claimant's receipt of the decision or deemed denial. The claimant will have the opportunity, upon request and free of charge, to have reasonable access to and copies of all documents, records and other information relevant to the claimant's appeal. The claimant may submit written comments, documents, records and other information relating to his claim with the appeal. The Committee will review all comments, documents, records and other information submitted by the claimant relating to the claim, regardless of whether such information was submitted or considered in the initial claim determination. The Committee shall make a determination on the appeal within sixty (60) days after receiving the claimant's written appeal; *provided* that the Committee may determine that an additional sixty (60)-day extension is necessary due to circumstances beyond the Committee's control, in which event the Committee shall notify the claimant prior to the end of the initial period that an extension is needed, the reason therefor and the date by which the Committee expects to render a decision. If the claimant's appeal is denied in whole or part, the Committee shall provide written notice to the claimant of such denial. The written notice shall include the specific reason(s) for the denial; reference to specific Plan provisions upon which the denial is based; a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, and other information relevant to the claimant's claim; and a statement of the claimant's right to bring a civil action under section 502(a) of ERISA. If the claimant does not receive a written decision within the time period(s) described above, the appeal shall be deemed denied on the last day of such period (s).

Section 10.2. ERISA Fiduciary. For purposes of ERISA, the Committee shall be considered the named fiduciary under the Plan and the plan administrator.

ARTICLE 11. **TAX WITHHOLDING**

The Company shall have the right to deduct from any deferral or payment made hereunder, or from any other amount due a Participant, the amount of cash sufficient to satisfy the Company's or Affiliate's foreign, federal, state or local income tax withholding obligations with respect to such deferral (or vesting thereof) or payment. In addition, if prior to the date of distribution of any amount hereunder, the Federal Insurance Contributions Act (FICA) tax imposed under Code Sections 3101, 3121(a) and 3121(v)(2), where applicable, becomes due, the Participant's benefit under Article 4 or Savings Supplement Account balance under Article 5 shall be reduced by the amount needed to pay the Participant's portion of such tax.

ARTICLE 12. **OFFSET**

The Company shall have the right to offset from the benefits payable hereunder any amount that the Participant owes to the Company or any Affiliate without the consent of the Participant (or his spouse or Beneficiary, in the event of the Participant's death).

ARTICLE 13.
SUCCESSORS

All obligations of the Company under the Plan shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE 14.
DISPUTE RESOLUTION

Section 14.1. Governing Law. This Plan is intended to be a plan of deferred compensation maintained for a select group of management or highly compensated employees as that term is used in ERISA, and shall be interpreted so as to comply with the applicable requirements thereof. In all other respects, the Plan is to be construed and its validity determined according to the laws of the State of Wisconsin to the extent such laws are not preempted by federal law.

Section 14.2. Limitation on Actions. Any action or other legal proceeding under ERISA with respect to the Plan may be brought only after the claims and appeals procedures of Article 10 are exhausted and only within the period ending on the earlier of (i) one year after the date the claimant receives notice of a denial or deemed denial upon appeal under Section 10.1(b), or (ii) the expiration of the applicable statute of limitations period under applicable federal law. Any action or other legal proceeding not adjudicated under ERISA must be arbitrated in accordance with the provisions of Section 14.3.

Section 14.3. Arbitration.

(a) **Application.** Notwithstanding any employee agreement in effect between a Participant and the Company or any subsidiary employer, if a Participant, spouse or beneficiary brings a claim that relates to benefits under this Plan that is not covered under ERISA, and regardless of the basis of the claim (including but not limited to, actions under Title VII, wrongful discharge, breach of employment agreement, etc.), such claim shall be settled by final binding arbitration in accordance with the rules of the American Arbitration Association (“AAA”) and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(b) **Initiation of Action.** Arbitration must be initiated by serving or mailing a written notice of the complaint to the other party. Normally, such written notice should be provided to the other party within one year (365 days) after the day the complaining party first knew or should have known of the events giving rise to the complaint. However, this time frame may be extended if the applicable statute of limitation provides for a longer period of time. If the complaint is not properly submitted within the appropriate time frame, all rights and claims that the complaining party has or may have against the other party shall be waived and void. Any notice sent to the Company shall be delivered to:

Office of General Counsel
Johnson Controls, Inc.
5757 North Green Bay Avenue
P.O. Box 591
Milwaukee, WI 53201-0591

The notice must identify and describe the nature of all complaints asserted and the facts upon which such complaints are based. Notice will be deemed given according to the date of any postmark or the date of time of any personal delivery.

(c) Compliance with Personnel Policies . Before proceeding to arbitration on a complaint, the Participant, spouse or beneficiary must initiate and participate in any complaint resolution procedure identified in the Company's or subsidiary's personnel policies. If the claimant has not initiated the complaint resolution procedure before initiating arbitration on a complaint, the initiation of the arbitration shall be deemed to begin the complaint resolution procedure. No arbitration hearing shall be held on a complaint until any applicable Company or subsidiary complaint resolution procedure has been completed.

(d) Rules of Arbitration . All arbitration will be conducted by a single arbitrator according to the Employment Dispute Arbitration Rules of the AAA. The arbitrator will have authority to award any remedy or relief that a court of competent jurisdiction could order or grant including, without limitation, specific performance of any obligation created under policy, the awarding of punitive damages, the issuance of any injunction, costs and attorney's fees to the extent permitted by law, or the imposition of sanctions for abuse of the arbitration process. The arbitrator's award must be rendered in a writing that sets forth the essential findings and conclusions on which the arbitrator's award is based.

(e) Representation and Costs . Each party may be represented in the arbitration by an attorney or other representative selected by the party. The Company or subsidiary shall be responsible for its own costs, the AAA filing fee and all other fees, costs and expenses of the arbitrator and AAA for administering the arbitration. The claimant shall be responsible for his/her attorney's or representative's fees, if any. However, if any party prevails on a statutory claim which allows the prevailing party costs and/or attorneys' fees, the arbitrator may award costs and reasonable attorneys' fees as provided by such statute.

(f) Discovery; Location; Rules of Evidence . Discovery will be allowed to the same extent afforded under the Federal Rules of Civil Procedure. Arbitration will be held at a location selected by the Company. AAA rules notwithstanding, the admissibility of evidence offered at the arbitration shall be determined by the arbitrator who shall be the judge of its materiality and relevance. Legal rules of evidence will not be controlling, and the standard for admissibility of evidence will generally be whether it is the type of information that responsible people rely upon in making important decisions.

(g) Confidentiality . The existence, content or results of any arbitration may not be disclosed by a party or arbitrator without the prior written consent of both parties. Witnesses who are not a party to the arbitration shall be excluded from the hearing except to testify.

APPENDIX A
OFFICERS

1. Eligibility. This Appendix A covers officer employees of the Company who are participants in the Pension Plan and/or the Savings Plan, and whose benefits under the Pension Plan and/or Savings Plan are limited as described in Section 1.1.

2. Participation Date. An officer employee shall become a Participant on the date he or she is elected as an officer of the Company by the Company's Board of Directors.

3. Pension Plan Supplement.

(a) Eligibility. Any Participant who retires under the Pension Plan on or after January 1, 1980, or such Participant's Spouse who is entitled to a benefit under the Pension Plan, shall be entitled to a benefit payable hereunder in accordance with this Section 3.

(b) Amount of Pension Plan Supplement. The amount of monthly benefits to which an eligible individual is entitled shall equal the excess, if any, of:

(1) The amount of such Participant's, surviving Spouse's or other beneficiaries' Pension Plan Benefits computed under the provisions of the Pension Plan (assuming the annuity starting date under this Plan is the annuity starting date under the Pension Plan), without regard to the limitations imposed by reason of Section 415 of the Code or the limit on considered compensation under Section 401(a)(17) of the Code, and on the assumption that all amounts of cash compensation which the Participant elected to defer under the Annual Incentive Plan and/or under Article 5 of this Plan were paid as "Compensation" as defined in the Pension Plan (to the extent not already included in such "Compensation" under the applicable Pension Plan definition); over

(2) The amount of Pension Plan Benefits payable to such Participant, surviving Spouse or other beneficiary for each month under the Pension Plan, as computed under the provisions of the Pension Plan (assuming the annuity starting date under this Plan is the annuity starting date under the Pension Plan) and subject to the above mentioned limitations.

4. Savings Plan Supplement.

(a) Before-Tax Contributions Allocation. For each calendar year, each Participant may elect that, in the event the Participant's ability to make Before-Tax Matched Contributions under the Savings Plan is limited by reason of Sections 401(k), 402(g) or 415 of the Code and/or the limit on considered compensation under Section 401(a)(17) of the Code, then the difference between the amount of Before-Tax Matched Contributions that the Participant could have made under the Savings Plan for any calendar year (assuming the Participant elected the maximum amount of Before-Tax Matched Contributions for the calendar year and did not change his election during the calendar year) and the amount that would have been contributed as Before-Tax Matched

Contributions but for such limits shall be credited, as of December 31 of such year, to the Participant's Savings Supplement Account. A Participant's election shall be made prior to the first day of the calendar year to which it relates, and shall be irrevocable as of the first day of such year.

Notwithstanding the foregoing, in the first calendar year in which an individual becomes a Participant, the Participant shall be automatically deemed to have elected to defer six percent (6%) of his or her compensation that is paid after the date he or she becomes a Participant and that exceeds the Code Section 401(a)(17) limit for such year; *provided* that the foregoing shall not apply to any individual who first becomes a Participant on or after November 1.

A Participant's election (or deemed election in the initial year of participation) shall be effective only for the calendar year to which the election relates, and shall not carry over from year to year. An election (or deemed election) under this subsection (a) shall constitute an election by the Participant to reduce the Participant's salary by the amount determined under this subsection. The Participant's election shall be made in the form and manner and within such timeframes as the Administrator may prescribe.

(b) Matching Contributions Allocation. A Participant's Savings Supplement Account shall also be credited as of each December 31 with an amount equal to the difference between the amount of Matching Contributions actually credited to the Participant's Savings Plan account for the year and the amount of Matching Contributions that would have been so credited if the amount determined under subsection (a) had actually been contributed to the Savings Plan (determined without regard to the limitations imposed by Sections 401(m) and 415 of the Code), but only with respect to the period the Participant is covered by this Plan; *provided* the Participant has met the eligibility requirements to receive a Matching Contribution under the Savings Plan for such year. The Matching Contributions credited hereunder shall be subject to the same vesting requirements as are imposed on matching contributions under the Savings Plan, except that service with York International Corporation prior to January 1, 2006 will not count as vesting service for purposes of this Plan.

(c) Retirement Income Allocation. A Participant's Savings Supplement Account also shall be credited as of each December 31 with an amount equal to the difference between the amount of Retirement Income Contributions actually credited to the Participant's Savings Plan account for the year and the amount of Retirement Income Contributions that would have been so credited if the limit on considered compensation under Section 401(a)(17) of the Code did not apply; *provided* the Participant has met the eligibility requirements to receive a Retirement Income Contribution under the Savings Plan for such year. The Retirement Income Contributions credited hereunder shall be subject to the same vesting requirements as are imposed on Retirement Income Contributions under the Savings Plan, except that service with York International Corporation prior to January 1, 2006 will not count as vesting service for purposes of this Plan.

(d) Modification of Compensation . Notwithstanding the foregoing, when determining a Participant's compensation for purposes of subsections (a), (b) and (c), the only bonus that may be included is the amount a Participant receives (or would receive but for a deferral election) under the Annual Incentive Plan for the calendar year.

(e) Cancellation of Deferral Elections . If a Participant receives a distribution due to an Unforeseeable Emergency and requests cancellation of his or her deferral election under subsection (a), or if the Administrator determines that such deferral election must be cancelled in order for the Participant to receive a distribution due to an Unforeseeable Emergency, then the Participant's deferral election shall be cancelled. Likewise, if required for the Participant to receive a hardship distribution under the Savings Plan, or any other 401(k) plan maintained by the Company or an Affiliate, the Participant's deferral election(s) shall be cancelled. A Participant whose deferral election(s) are cancelled pursuant to this subsection (e) may make a new deferral election under subsection (a) with respect to future calendar years, unless otherwise prohibited by the Administrator.

(f) Distribution Election . A Participant's Savings Supplement Account shall be paid in accordance with the distribution election filed under Appendix B if the Participant had previously been eligible for an allocation under Appendix B. If a Participant was not previously participating under Appendix B when he or she first becomes eligible hereunder, then the amounts deferred hereunder in the first year of participation (and earnings thereon) shall be paid in a lump sum, and all future amounts shall be paid in accordance with the Participant's distribution election, which must be submitted by December 31 of the first year of participation, or if no election is so filed, in accordance with the Plan's default rules.

APPENDIX B
HIGHLY COMPENSATED EMPLOYEES (RIC)

1. Eligibility . This Appendix B covers employees of the Company, Johnson Controls Interiors, LLC (on and after January 1, 2006) and York International Corporation who participate in the Savings Plan, and whose Retirement Income Contribution under such plan is limited by reason of the application of Code Section 401(a)(17).
2. Participation . An eligible employee shall become a Participant on the date the Participant's compensation first exceeds the Code Section 401(a)(17) limit.
3. Retirement Income Allocation . A Participant's Savings Supplement Account shall be credited as of each December 31 with an amount equal to the difference between the amount of Retirement Income Contributions actually credited to the Participant's Savings Plan account for the year and the amount of Retirement Income Contributions that would have been so credited if the limit on considered compensation under Section 401(a)(17) of the Code did not apply; *provided* the Participant has met the eligibility requirements to receive a Retirement Income Contribution under the Savings Plan for such year. The Retirement Income Contributions credited hereunder shall be subject to the same vesting requirements as are imposed on Retirement Income Contributions under the Savings Plan, except that service with York International Corporation prior to January 1, 2006 will not count as vesting service for purposes of this Plan.
4. Modification of Compensation . Notwithstanding the foregoing, when determining a Participant's compensation for purposes of Section 2, the only bonus that may be included is the amount a Participant receives (or would receive but for a deferral election) under the Annual Incentive Plan for the calendar year.
5. Special Distribution Rules . Amounts credited under this Appendix B (plus earnings thereon) in the initial year of participation and the immediately following calendar year shall be paid in a lump sum. For all amounts credited thereafter, payment shall be made in accordance with the Participant's distribution election, which must be submitted by December 31 of the second year of participation, or if no election is so filed, in accordance with the Plan's default rules.

APPENDIX C
HIGHLY COMPENSATED EMPLOYEES (PENSION)

1. Eligibility. This Appendix C covers those employees of the Company or Johnson Controls Interiors, LLC (on and after January 1, 2006), who are participants in the Pension Plan, and whose benefits under the Pension Plan are limited as described in Section 1.1, other than employees covered by Appendix A.
2. Vesting. A Participant shall be entitled to benefits under this Appendix only if the Participant retires or otherwise terminates employment with the Company and its Affiliates on or after the Participant's attainment of age fifty-five (55) and on or after the date on which the Participant has completed ten (10) years of service. For purposes of this Plan, a Participant shall be credited with years of service equal to the Participant's years of Vesting Service credited under the Pension Plan, *provided* that years of service with York International Corporation (or any affiliate thereof) prior to January 1, 2006 shall not be counted as years of service hereunder. In the event that a Participant's employment is terminated prior to satisfying the vesting requirements of this paragraph, no benefit shall be payable from this Appendix.
3. Supplemental Retirement Benefit. A Participant who retires under the Pension Plan on or after January 1, 2005 (or with respect to an employee of Johnson Controls Interiors, LLC, on or after January 1, 2006), or such Participant's Spouse or other beneficiary, shall be entitled to a benefit payable hereunder equal to the excess, if any, of:

(a) The amount of Participant's or surviving Spouse's or other beneficiaries' Pension Plan Benefits under the provisions of the Pension Plan, without regard to the limitations imposed by reason of the limit on considered compensation under Section 401(a)(17) of the Code, and on the assumption that all amounts that the Participant elected to defer under the under the Annual Incentive Plan were paid as "compensation" as defined in the Pension Plan (to the extent not already included in such "compensation" under the Pension Plan definition); over

(b) The amount of Pension Plan Benefits actually payable to such Participant, surviving Spouse or other beneficiary for each month under the Pension Plan, as computed under the provisions of the Pension Plan and subject to the above mentioned limitations.

APPENDIX D MERGED PLANS

PERT Equalization Benefit Plan

Effective January 1, 2006, employees of Johnson Controls Interiors, LLC who were previously eligible to participate in the PERT Equalization Benefit Plan, became eligible for the Johnson Controls Pension and Savings Plans. Accordingly, effective as of January 1, 2006, the PERT Equalization Plan was merged with and into this Plan, with the effect that the account balances under the PERT Equalization Plan were transferred to this Plan. Such account balances will be subject to all of the same terms and conditions of the Plan as apply to the Savings Supplemental Accounts. PERT transferred account balances vest in accordance with the provisions of Appendix C (i.e., upon attainment of age 55 and completion of ten years of service while an employee), provided that the account balance of a Participant who entered the PERT Equalization Plan on January 1, 1999, shall vest in accordance with Section 4.2 of such plan.

During 2005, the PERT Equalization Benefit Plan was operated in good faith compliance with Code Section 409A. The provisions of this Plan that apply to the Savings Supplemental Accounts effective as of January 1, 2005 are deemed to apply to the PERT Equalization Plan effective as of the same date, and the PERT Equalization Plan is amended with respect to the 2005 calendar year to incorporate such provisions.

JCI Pension Restoration Plan

Effective January 1, 2006, the Johnson Controls, Inc. Pension Restoration Plan was merged with and into this Plan, such that the benefits accrued under the Pension Restoration Plan as of December 31, 2005, will be accounted for and subject to the terms of this Plan effective January 1, 2006. Such accrued benefits will be subject to all of the same terms and conditions of the Plan as apply to the Pension Plan Supplement Benefits, but the amount of the benefits payable will be determined in accordance with Appendix C.

During 2005, the JCI Pension Restoration Plan was operated in good faith compliance with Code Section 409A. The provisions of this Plan that apply to the Pension Plan Supplement benefits effective as of January 1, 2005 are deemed to apply to the JCI Pension Restoration Plan effective as of the same date, and the JCI Pension Restoration Plan is amended with respect to the 2005 calendar year to incorporate such provisions.

APPENDIX E
YORK PENSION PLAN

1. Eligibility. This Appendix E covers those employees of York International Corporation (on and after January 1, 2006), who are participants in the York International Corporation Pension Plan Number One for York Salaried Employees, and who are eligible to participate in the JCI Executive Deferred Compensation Plan. For purposes of determining the time and form of distribution of the benefits provided under this Appendix E and for all other purposes of the Plan document (excluding the other Appendices), the York International Corporation Pension Plan Number One for York Salaried Employees shall be considered the "Pension Plan."
2. Vesting. A Participant shall be entitled to benefits under this Appendix only if the Participant retires or otherwise terminates employment with the Company and its Affiliates on or after the Participant's attainment of age fifty-five (55) and on or after the date on which the Participant has completed ten (10) years of service. For purposes of this Plan, a Participant shall be credited with years of service equal to the Participant's years of Vesting Service credited under the Pension Plan, provided that years of service with York International Corporation (or any affiliate thereof) prior to January 1, 2006 shall not be counted as years of service hereunder. In the event that a Participant's employment is terminated prior to satisfying the vesting requirements of this paragraph, no benefit shall be payable from this Appendix.
3. Supplemental Retirement Benefit. A Participant who retires under the Pension Plan on or after January 1, 2006, or such Participant's Spouse or other beneficiary, shall be entitled to a benefit payable hereunder equal to the excess, if any, of:
 - (a) The amount of Participant's or surviving Spouse's or other beneficiaries' Pension Plan Benefits under the provisions of the Pension Plan, calculated on the assumption that all bonus amounts that the Participant elected to defer under the JCI Executive Deferred Compensation Plan were paid as "earnings" as defined in the Pension Plan (to the extent not already included in such "earnings" under the Pension Plan definition and subject to the limit on compensation imposed by Section 401(a)(17) of the Code); over
 - (b) The amount of Pension Plan Benefits actually payable to such Participant, surviving Spouse or other beneficiary for each month under the Pension Plan, as computed under the provisions of the Pension Plan.

ADDENDUM
SPECIAL GRANDFATHER AND TRANSITION RULES

Pursuant to the provisions of Notice 2005-1 and the additional transition rules provided in proposed regulations under Code Section 409A:

1. The terms of this Amended and Restated Plan shall not apply to any participant who terminated employment prior to January 1, 2005, and was entitled to a payment under Article 4 (prior to its amendment) or the JCI Pension Restoration Plan. Such participants shall continue to be entitled to receive payment of the supplemental pension benefit at the same time and in the same form as the benefit is paid under the Pension Plan.
2. Any Participant who terminated employment during 2005 and 2006 and who was entitled to a payment under Article 4 (Pension Supplement) or the JCI Pension Restoration Plan received such payment in the same form and at the same time as payments were made under the Pension Plan. Those payments, and any other payments that began to be made under the Plan prior to January 1, 2005, shall continue to be paid in the form of distribution in effect as of the date payments began.
3. The Company provided each Participant with an opportunity to file a new distribution election during calendar year 2005, with respect to his Savings Supplement Account and his vested PERT Equalization Benefit Plan Account, as applicable. The new distribution election allowed the Participant to select a lump sum or up to ten (10) annual installments for each of his sub-accounts. The distribution election received by the Administrator as of December 31, 2005 is irrevocable.
4. The Company provided each Participant who did not have a vested interest in his PERT Equalization Benefit Plan Account with an opportunity to file a new distribution election during calendar year 2006, *provided* that such election could not cause a payment otherwise due in 2006 to be deferred to a later year or cause a payment otherwise due in 2007 to be made in 2006. The new distribution election allowed the Participant to select a lump sum or up to ten (10) annual installments for each of his sub-accounts. The distribution election received by the Administrator as of December 31, 2006 is irrevocable.
5. During calendar year 2006, the Company provided Mr. C. David Myers with an opportunity to file an election as to the form of distribution for the portion of his Supplemental Plan Account attributable to retirement income supplemental contributions (and earnings thereon). The distribution election received by the Administrator as of December 31, 2006 is irrevocable with respect to such portion of the Supplemental Plan Account. The distribution election on file as of December 31, 2005, continues to apply to the remainder of his Supplemental Plan Account.
6. For 2006, Mr. Barth and Mr. Wandell, participants under Appendix A, delayed the implementation of their salary increases until July 1, 2006. For purposes of calculating

the Pension Plan Supplement and Matching Contributions under Appendix A for such individuals, the increase in base salary shall be deemed effective January 1, 2006.

JOHNSON CONTROLS, INC.**COMPENSATION SUMMARY FOR NON-EMPLOYEE DIRECTORS**

Compensation for non-employee members of the Board of Directors (the “Board”) of Johnson Controls, Inc. (the “Company”), effective October 1, 2006, consists of the payment for the Company’s fiscal year of:

(i) a retainer at the annual rate of \$200,000 to each non-employee director in the form of \$100,000 in cash and \$100,000 in common stock of the Company (the “Retainer”) and

(ii) a Committee chair fee at the annual rate of \$25,000 in cash to each non-employee chair and successor chair for the Audit, Corporate Governance, Nominating and Compensation Committees of the Board (the “Committee Chair Fee”).

Payment of Common Stock Portion of the Retainer. The Company will pay the common stock portion of the Retainer on the date of the annual shareholders meeting to each director then in office, subject to the following:

- If a director is retiring from the Board as of the date of such annual shareholders meeting, then the director will be entitled to receive common stock with an aggregate value equal to (x) the number of days that have elapsed from October 1 of the fiscal year in question to the date of the annual shareholders meeting divided by (y) 365, multiplied by \$100,000;
- If a director is newly elected at the annual shareholders meeting, or was appointed as a director on or after the October 1 of the fiscal year in question, then the director will be entitled to receive common stock with an aggregate value equal to (x) the number of days in the period from the effective date of the director’s appointment or election to the Board through September 30 of the fiscal year in question divided by (y) 365, multiplied by \$100,000.

If a director is newly appointed or elected to the Board after the annual shareholders meeting in the fiscal year in question, then the director will be entitled to receive upon the effective date of his or her appointment or election common stock with an aggregate value equal to (x) the number of days in the period from the effective date of the director’s appointment or election through September 30 of the fiscal year in question divided by (y) 365, multiplied by \$100,000.

If a director retires from the Board either on October 1 or after October 1 of the fiscal year in question but prior to the annual shareholders meeting in such fiscal year, then the director will be entitled to receive upon the effective date of his or her date of retirement common stock with an aggregate value of (x) the number of days that have elapsed from October 1 of the fiscal year in question to the date of the director’s retirement divided by (y) 365, multiplied by \$100,000.

Payment of the Cash Portion of the Retainer and Committee Chair Fee. The Company will pay the cash portion of the Retainer and the Committee Chair Fee in the form of a quarterly payment (\$25,000 per quarter for the cash portion of the Retainer and \$6,250 per quarter for the Committee Chair Fee) in advance on the first business day of each quarter to each director then in office, except that the Company will make the first payment on November 15, 2006. If a director is either elected or appointed to the Board or is appointed as a Committee Chair (or successor to a Committee Chair) at any time during the fiscal year after the first business day of a quarter, then such director will receive upon the effective date of such election or appointment, for the quarter in which such election or appointment is effective, a

prorated amount of the cash portion of the Retainer and/or any Committee Chair Fee with such amount to be determined in the manner set forth below:

- Cash portion of Retainer: The director shall receive a cash amount equal to (x) the number of days from the effective date of the appointment or election to the first day of the next quarter divided by (y) 90, multiplied by \$25,000; and
- Committee Chair Fee: The director shall receive a cash amount equal to (x) the number of days from the effective date of the appointment or election to the first day of the next quarter divided by (y) 90, multiplied by \$6,250.

The Company will not pay any fees for attendance at meetings of the Board or any committee.

Additionally, the Company will grant to all new non-employee members of the Board 800 shares of common stock of the Company upon election or appointment to the Board.

All shares of stock to be issued to directors as contemplated above will be issued pursuant to the 2003 Director Stock Plan.

Non-employee directors are permitted to defer all or any part of their Retainer and Committee Chair Fees under the Johnson Controls, Inc. Deferred Compensation Plan for Certain Directors.

The Company will also reimburse non-employee directors for any expenses related to their service on the Board.



RESTRICTED STOCK AGREEMENT

GRANTED TO

Employee Name

NUMBER OF SHARES

###

GRANT DATE

dd/mm/yyyy

STOCK PRICE

Closing Price on Grant Date

RESTRICTION PERIOD ENDS ON:

Shares – dd/mm/yyyy

Shares – dd/mm/yyyy

JOHNSON CONTROLS, INC. RESTRICTED STOCK PLAN

This certifies that on January 3, 2006, Johnson Controls, Inc., shall grant a Restricted Stock Award as indicated above, upon the terms and conditions in this Agreement and the terms of the Restricted Stock Plan dated October 1, 2001, and amended January 28, 2004, which terms the Participant accepts.

Johnson Controls, Inc., a Wisconsin corporation, has its principal office in Milwaukee, Wisconsin, (the "Company"). The Restricted Stock Plan (the "Plan") was adopted October 1, 2001, to allow Restricted Shares or Restricted Share Units of the Company's common stock ("Shares") to be granted to certain key employees of the Company or any Subsidiary, as defined in Section 425(f) of the Internal Revenue Code of 1986, as amended ("Subsidiary").

The individual named in this agreement (the "Participant") is a key employee of the Company or a Subsidiary, and the Company desires the Participant to remain in such employ by providing the Participant with a means to increase his/her proprietary interest in the Company's success. The Plan and this Agreement shall be administered by the Compensation Committee of the Board of Directors (the "Committee"). If at any time the Committee shall not be in existence, the Board shall administer the Plan and this Agreement and each reference to the Committee herein shall be deemed to include the Board.

The parties mutually agree as follows:

1. **Grant of Award** . Subject to the terms and conditions of the Plan, a copy of which has been delivered to the Participant and made a part hereof, and this Agreement, the Company grants to the Participant an award of Restricted Shares on the date and with respect to the number of Shares specified above. The Participant may elect, prior to or within thirty (30) days after the grant date, to convert the Award, in whole or in part, to Restricted Share Units. If the Participant fails to make an election, the Award shall remain in the form of Restricted Shares. Any capitalized terms not defined in this Agreement will have the meanings provided in the Plan.
2. **Restricted Shares** . If the Award is in the form of Restricted Shares, the Restricted shares are subject to the following provisions:

Restriction Period. The Company will hold the Restricted Shares in escrow for the Restriction Period. During this period, the Participant may not sell, transfer, pledge, assign or otherwise use these Restricted Shares, and the Restricted Shares shall be subject to forfeiture as provided in Section 4.

Restricted Shares will be held in a book entry share position while in escrow, subject to the transfer restrictions and risk of forfeiture.

 - a) Removal of Restrictions. Restricted Shares that have not been forfeited shall become available to the Participant after the last day of the Restriction Period. Once the Shares are released, the restrictions shall be removed from the Participant's book entry share position.
 - b) Voting Rights . During the Restriction Period, the Participant may exercise full voting rights with respect to the Restricted Shares.
 - c) Dividends and Other Distributions . Any dividends or other distributions paid or delivered with respect to Restricted Shares will be subject to the same terms and conditions (including risk of forfeiture) as the Restricted Shares to which they relate. All dividends or other distributions paid or delivered with respect to Restricted Shares during the Restriction Period (other than dividends or other distributions payable in Shares) shall be allocated to a Share Unit account under the Deferred Compensation Plan. Dividends or distributions payable in shares will be held in a book entry share position as Restricted Shares.
 - d) Payment of Dividends . The value of the Participant's Share Unit account as to which the Restriction Period has lapsed shall be paid to the Participant (or his beneficiary).
3. **Restricted Share Units**. If the Participant elects to convert all or part of this Award to Restricted Share Units, the Restricted Share Units are subject to the following terms:
 - a) Establishment of Account . The Company shall establish a bookkeeping account under the Deferred Compensation Plan to which shall be credited the number of Restricted Share Units elected. During the Restriction Period, the Restricted Share Unit account will be subject to a risk of forfeiture as provided in Section 4.
 - b) Alienation of Account . The Participant (or beneficiary) shall not have any right to assign, transfer, pledge, encumber or otherwise use the Restricted Share Unit account (including after the Restriction Period has lapsed).

- c) Dividends and Other Distributions. The Participant's Restricted Share Unit account shall be credited for any dividends or other distributions delivered on Shares equivalent to the number of Restricted Share Units credited to such account, whether in the form of cash or in property, in accordance with the terms of the Deferred Compensation Plan. Such credit shall be subject to the same terms and conditions (including risk of forfeiture) as the Restricted Share Units to which they relate.
- d) Payment of Account. The value of the Participant's Share Unit account as to which the Restriction Period has lapsed shall be paid to the Participant (or his beneficiary) in accordance with the terms of the Deferred Compensation Plan.

4. Termination of Employment – Risk of Forfeiture.

- a) Retirement. If the Participant terminates employment from the Company and its Subsidiaries due to Retirement, any remaining Restriction Period shall continue as if the Participant continued in active employment. If the Participant engages in Inimical Conduct after his Retirement, as determined by the Committee, any Restricted Shares and/or Restricted Share Units still subject to a Restriction Period shall automatically be forfeited as of the date of the Committee's determination.
- b) Death or Disability. If the Participant's employment from the Company and its Subsidiaries terminates because of death or Total and Permanent Disability at a time when the Participant could not have been terminated for Cause, or if the Participant dies after Retirement while this Award is still subject to the Restriction Period, any remaining Restriction Period shall automatically lapse as of the date of such termination of employment or death, as applicable.
- c) Other Termination. If the Participant's employment terminates for any reason not described above, then any Restricted Shares and/or Restricted Share Units (and all deferred dividends paid or credited thereon) still subject to the Restriction Period as of the date of such termination shall automatically be forfeited and returned to the Company. In the event of the Participant's involuntary termination of employment by the Company or a Subsidiary for other than Cause, the Committee may waive the automatic forfeiture of any or all such Shares or Share Units (and all deferred dividends paid or credited thereon) and may add such new restrictions to such Restricted Shares or Restricted Share Units as it deems appropriate. The Company may suspend payment or delivery of Shares (without liability for interest thereon) pending the Committee's determination of whether the Participant was or should have been terminated for Cause or whether the Participant has engaged in Inimical Conduct.

5. Amendment of Agreement. The Committee, subject to the provisions of the Restricted Stock Plan, may amend this award agreement.

6. Withholding. The Participant agrees to remit to the Company any foreign, Federal, state and/or local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to the issuance of Shares or the vesting and/or distribution of the Participant's Share Unit account. The Company can withhold Shares no longer restricted, or can withhold from other cash or property payable to the Participant, in the amount needed to satisfy any withholding obligations.

The Participant may elect to tender to the Company previously acquired Shares to satisfy the minimum tax withholding obligations. The value of the Shares to be tendered is to be based on the Fair Market Value of the Shares on the date that the amount of tax to be withheld is determined.

- 7. **Securities Compliance.** The Company may place a legend or legends upon the certificates for Shares issued under the Plan and may issue “stop transfer” instructions to its transfer agent in respect of such Shares as it determines to be necessary or appropriate to (a) prevent a violation of, or to obtain an exemption from, the registration requirements of the Securities Act, applicable state securities laws or other legal requirements, or (b) implement the provisions of the Plan or any agreement between the Company and the Participant with respect to such Shares.
- 8. **Successors.** All obligations of the Company under this Agreement shall be binding on any successor to the Company. The terms of this Agreement and the Plan shall be binding upon and inure to the benefit of the Participants, heirs, executors, administrators or legal representatives.
- 9. **Legal Compliance.** The granting of this Award and the issuance of Shares under this Agreement shall be subject to all applicable laws, rules, and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.
- 10. **Governing Law; Arbitration.** This Agreement and the rights and obligations hereunder shall be governed by and construed in accordance with the internal laws of the State of Wisconsin.

Arbitration will be conducted per the provisions in the Restricted Stock Plan.



This Agreement, and any documents expressly incorporated herein, contains all of the provisions applicable to the Restricted Stock Award. No other statements, documents or practices may modify, waive or alter such provisions unless expressly set forth in writing, signed by an authorized officer of the Company and delivered to the Participant.

IN WITNESS WHEREOF, the Company has caused this Restricted Stock Agreement to be executed by one of its duly authorized officers, and the Participant has consented to the terms of this Agreement, as of the date of Grant specified on the front of this certificate.

JOHNSON CONTROLS, INC.

Jerome D. Okarma
Vice President, Secretary and General Counsel

Participant

Date



EMPLOYEE NAME
AMENDMENT TO RESTRICTED STOCK AGREEMENTS

On January 3, 2006, you received an award of Restricted Stock under the Johnson Controls, Inc. Restricted Stock Plan. The Compensation Committee amended the plan to change the vesting rules for retirement. Because of this change to the plan, Section 4.a) of your Restricted Stock Agreement is amended to read as follows:

a) Retirement. If the Participant terminates employment from the Company and its Subsidiaries due to Retirement **on or after the last day of the calendar year following the calendar year in which the Award of Restricted Shares or Restricted Share Units is made**, any remaining Restriction Period shall continue as if the Participant continued in active employment ; **provided, however, that for awards granted on January 3, 2006, if the Participant terminates employment due to Retirement on or after December 31, 2006, any remaining Period of Restriction shall continue as if the Participant continued in active employment**. If the Participant engages in Inimical Conduct after his Retirement, as determined by the Committee, any Restricted Shares and/or Restricted Share Units still subject to a Restriction Period shall automatically be forfeited as of the date of the Committee's determination.

Please sign below to acknowledge your receipt of, and agreement to, this Amendment to your Restricted Stock Agreement. Please keep the duplicate copy of this Amendment (which is attached) with your Restricted Stock Agreements in your personal records. A copy of the amended plan is enclosed.

JOHNSON CONTROLS, INC.

Its: Vice President, Secretary and
General Counsel

PARTICIPANT:

Employee Name

Dated: _____

**JOHNSON CONTROLS, INC.
OPTION AWARD**

Name: *Employee Name*

Number of Options: #####

Grant Date: mm/dd/yyyy

Expiration Date: mm/dd/yyyy

Exercisable Date: mm/dd/yyyy

Option Exercise Price: \$\$. \$\$

2006 Stock Option Grant — Terms for Nonqualified Stock Options and Stock Appreciation Rights

Johnson Controls, Inc., a Wisconsin corporation with its principal office in Milwaukee, Wisconsin, (the “Company”) has adopted the 2000 Stock Option Plan (the “Plan”) to permit options to purchase shares of the Company’s common stock (“Stock”) to be granted to certain key employees of the Company or any Subsidiary, as defined in Section 425(f) of the Internal Revenue Code of 1986, as amended (“Subsidiary”). The individual (the “Optionee”) is a key employee of the Company or a Subsidiary, and the Company desires the Optionee to remain in such employ by providing the Optionee with a means to acquire or to increase his/her proprietary interest in the Company’s success.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements herein set forth, the parties hereby mutually covenant and agree as follows:

1. Subject to the terms and conditions of the Plan, a copy of which has been made available to the Optionee and made a part hereof, and this Agreement, the Company grants to the Optionee:

a) In the case of a Nonqualified Stock Option, right to purchase from the Company all or any part of an aggregate number of shares of Stock. (Hereinafter such shares of Stock are referred to as the “Optioned Shares” and the option to purchase the Optioned Shares is referred to as the “Option”). The Option is intended to constitute a “nonqualified stock option” or an option for “stock appreciation rights.”

b) The purchase price payable upon exercise of the Nonqualified Stock Option shall be the option exercise price per share indicated in the Optionee notification, subject to adjustment as described in the terms of the Plan.

c) An Option granted for Stock Appreciation Rights entitles the Optionee to receive the economic value of such stock appreciation rights determined in the manner prescribed in the Plan document, Paragraph 16, subparagraph (b), and in the form prescribed in Paragraph 16, subparagraph (c).

2. Subject to the terms and conditions of the Plan and this Agreement, the Option may be exercised by the Optionee while in the employ of the Company or any Subsidiary, in whole or in part in increments of 100 shares or more, from time to time, subject to the vesting dates and expiration date. The vesting schedule of the option is as follows:

(a) Fifty Percent (50%) of the Option shall vest on the two-year anniversary date of the Grant Date.

(b) Fifty Percent (50%) of the Option shall vest on the three-year anniversary date of the Grant Date.

The Option shall expire ten years from the Option Grant Date.

3. The Option may be exercised only by written notice, delivered, faxed or mailed to the Shareholder Services Department of the Company in Milwaukee, Wisconsin, specifying the number of Optioned Shares being purchased. Such notice shall be accompanied by payment of the entire option price of the Optioned Shares being purchased: (i) in cash or its equivalent; (ii) by tendering previously acquired shares of Stock valued at their fair market value at the time of

exercise; or (iii) by any combination of (i) and (ii). For purposes of this paragraph, fair market value shall be determined in the same manner as the fair market value of the Stock on the Grant Date was determined pursuant to the Plan document.

An Optionee selected by the Compensation Committee to participate in the Deferral Plan may defer receipt of shares of Common Stock deliverable upon exercise by making a deferral election as set forth in the Johnson Controls Stock Option Deferral Policies and Procedures.

4. (a) It shall be a condition of the obligation of the Company to issue or transfer shares of Stock upon exercise of the Option, and that the Optionee pay to the Company upon its demand, such amount as may be requested by the Company for the purpose of satisfying its liability to withhold federal, state or local income or other taxes incurred by reason of the exercise of the Option. If the amount requested is not paid, the Company may refuse to issue or transfer shares of Stock upon exercise of the Option.

(b) The Optionee shall be permitted to satisfy the Company's withholding tax requirements by electing (the "Election") to have the Company withhold shares of Stock otherwise issuable to the Optionee or to deliver to the Company shares of Stock having a fair market value on the date income is recognized pursuant to the exercise of the Option (the "Tax Date") equal to the minimum amount required to be withheld by the Optionee. If the number of shares of Stock determined pursuant to the preceding sentence shall include a fractional share, the number of shares withheld or delivered shall be reduced to the next lower whole number and the Optionee shall deliver to the Company cash in lieu of such fractional share, or otherwise make arrangements satisfactory to the Company for payment of such amount.

- i. The Election must be received by the Shareholder Services Department of the Company, at its principal office, prior to the Optionee's Tax Date.
- ii. The Election shall be irrevocable, and shall be subject to disapproval, in whole or in part, by the Committee. The Election shall be made in writing and shall be made according to such rules and regulations and in such form as the Committee shall determine.

5. (a) In the event a Participant's employment with the Company or any of its subsidiaries shall be terminated for any reason, except early or normal retirement, death or total and permanent disability, a Participant may exercise his or her Options or stock appreciation rights (to the extent vested and exercisable as of the date of the Participant's termination of employment) for a period of thirty (30) days after the date of the Participant's termination of employment, unless such Option or stock appreciation right expires earlier under the terms of the award agreement. Thereafter, all rights to exercise an Option or stock appreciation right shall terminate.

(b) If the Optionee ceases to be an employee of the Company or any Subsidiary by reason of early or normal retirement or total and permanent disability, the option or stock appreciation right: (i) shall be exercisable in full without regard to any vesting requirements; provided that an Option or stock appreciation right of a Participant who retires shall be exercisable in full only if the Participant retires on or after the last day of the calendar year following the calendar year in which such Option or stock appreciation right was granted, unless the Committee determines otherwise, and (ii) may be exercised by the Participant at any time within thirty-six months after the date of such early or normal retirement or termination due to total and permanent disability, as the case may be, unless such Option or stock appreciation right expires earlier under the terms of the award agreement.

In the event of the death of a retired Optionee or an Optionee on total and permanent disability, the Option may be exercised by the person to whom the Option is transferred, by will or by applicable laws of the descent and distribution, as if the Optionee had remained living.

For certain participants who are officers of the Company or who are selected by the Compensation Committee of the Board, nonqualified stock options and stock appreciation rights may be exercised, unless terminated earlier by its terms, in full without regard to any vesting requirements, at the date of the Optionee's retirement or disability, for a period selected by the Compensation Committee of either five (5) or ten (10) years after early or normal retirement, or for five (5) years after the date of such total and permanent disability, as the case may be, and not thereafter.

In the event of the Optionee's death while actively employed by the company, the Option may be exercised to the extent otherwise exercisable under paragraph 3 at the date of the Optionee's death, the Option may be exercised by the person to whom the Option is transferred by will or by applicable laws of the descent and distribution, unless terminated earlier by its terms, by giving notice, as provided in paragraph 4, at any time within twelve (12) months after the date of death, and not thereafter.

For purposes of this subparagraph, the Optionee's employment shall be deemed to be terminated due to (i) early or normal retirement if the Optionee is then eligible to receive immediate early or normal retirement benefits under the provisions of the Company's or its subsidiaries defined benefit pension plans; or, absent a defined pension plan, if the Optionee has worked at least ten continuous years for the Company and is at least 55 years old, or retires with five continuous years of service and is at least 65 years old and (ii) total and permanent disability if the Optionee is permanently and totally disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

(c) Termination for cause or inimical conduct shall cause the cancellation and forfeiture of any Option, regardless of vesting; and any pending exercises shall be cancelled on that date. Any amount the Participant owes to the company may be offset from an amount payable or stock deliverable hereunder.

(d) Notwithstanding the foregoing, from and after a Change of Control, the Option shall continue to be exercisable for a sixty-day period after the Optionee's termination of employment.

6. The Optionee shall not be deemed for any purposes to be a stockholder of the Company with respect to any shares which may be acquired hereunder except to the extent that the Option shall have been exercised with respect thereto and shares of Johnson Controls common stock issued therefor.

7. No Option granted hereunder shall be transferable other than options specifically designated by the Compensation Committee as such and meeting the following requirements of transfer:

a) by will or by the laws of descent and distribution; or

b) in the case of a nonqualified option:

(i) pursuant to a "Qualified Domestic Relations Order" as defined in Section 414(p) of the Internal Revenue Code; or

(ii) to (A) his or her spouse, children or grandchildren ("Immediate Family Members"), (B) a partnership in which the only partners are the Participant's Immediate Family Members, or (C) a trust or trusts established solely for the benefit of one or more of the Participant's Immediate Family Members (collectively, the Permitted Transferees), provided that there may be no consideration for any such transfer by a Participant.

Following transfer (if applicable), such Options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that such Options may be exercised during the life of the Participant only by the Participant or, if applicable, by the alternate payee designated under a Qualified Domestic Relations Order or the Participant's Permitted Transferees.

8. The Optionee agrees for himself/herself and the Optionee's heirs, legatees, and legal representatives, with respect to all shares of Stock acquired pursuant to the terms and conditions of this Agreement (or any shares of Stock issued pursuant to a stock dividend or stock split thereon or any securities issued in lieu thereof or in substitution or exchange therefor) that the Optionee and the Optionee's heirs, legatees, and legal representatives will not sell or otherwise dispose of such shares except pursuant to an effective registration statement under the Securities Act of 1933, as amended ("Act"), or except in a transaction which, in the opinion of counsel for the Company, is exempt from registration under the Act.

9. The existence of the Option herein granted shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred, or prior preference stock ahead of or affecting the Stock or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

10. As a condition of the granting of the Option, the Optionee agrees for himself/herself and his/her legal representatives, that any dispute or disagreement which may arise under or as a result of or pursuant to this Agreement shall be governed by the internal laws of the State of Wisconsin and settled by final binding arbitration in accordance with the rules of the American Arbitration Association and the provisions of the Plan.

11. Notwithstanding the provisions of paragraph 3 of this Agreement, in the event of a Change of Control of the Company, as defined in Paragraphs 20 and 21 of the Plan document, the Option shall immediately become exercisable with respect to all or any part of the Optioned Shares. Further, upon a Change of Control of the Company, Optionee may elect to surrender all or a part of the Option to the Company and receive a cash payment, as defined in Paragraph 21 of the Plan document.

This Agreement, and any documents expressly incorporated herein, contain all of the provisions applicable to the Options and no other statements, documents or practices may modify, waive or alter such provisions unless expressly set forth in writing, signed by an authorized officer of the Company and delivered to the Optionee.

IN WITNESS WHEREOF, the Company has caused this Option Agreement to be executed by one of its duly authorized officers as of the date of Grant.

JOHNSON CONTROLS, INC.

Jerome D. Okarma
Vice President, Secretary and General Counsel

JOHNSON CONTROLS, INC.

Following is a list of significant subsidiaries of the Company, as defined by section 1.02(w) of Regulation S-X, as of December 1, 2006.

<u>Name</u>	<u>Jurisdiction Where Subsidiary is Incorporated</u>
Hoover Universal, Inc.	Michigan
Johnson Controls Battery Group, Inc.	Wisconsin
Johnson Controls Holding Company, Inc.	Delaware
Johnson Controls Technology Company	Michigan
York International Corporation	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 and Form S-8 listed below of Johnson Controls, Inc. of our report dated December 1, 2006 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K .

1. Registration Statement on Form S-8 (Registration No. 33-30309)
2. Registration Statement on Form S-8 (Registration No. 33-31271)
3. Registration Statement on Form S-8 (Registration No. 33-58092)
4. Registration Statement on Form S-8 (Registration No. 33-58094)
5. Registration Statement on Form S-3 (Registration No. 33-64703)
6. Registration Statement on Form S-8 (Registration No. 333-10707)
7. Registration Statement on Form S-3 (Registration No. 333-13525)
8. Registration Statement on Form S-3 (Registration No. 333-130714)
9. Registration Statement on Form S-8 (Registration No. 333-66073)
10. Registration Statement on Form S-8 (Registration No. 333-41564)
11. Registration Statement on Form S-3 (Registration No. 333-59594)
12. Registration Statement on Form S-8 (Registration No. 333-117898)
13. Registration Statement on Form S-3 (Registration No. 333-111192)

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
December 1, 2006

CERTIFICATIONS

I, John M. Barth, Chairman and Chief Executive Officer of Johnson Controls, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Johnson Controls, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 5, 2006

/s/ John M. Barth

John M. Barth

Chairman and Chief Executive Officer

CERTIFICATIONS

I, R. Bruce McDonald, Executive Vice President and Chief Financial Officer of Johnson Controls, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Johnson Controls, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 5, 2006

/s/ R. Bruce McDonald

R. Bruce McDonald
Executive Vice President and Chief Financial
Officer

CERTIFICATION OF PERIODIC FINANCIAL REPORTS

We, John M. Barth, Chairman and Chief Executive Officer, and R. Bruce McDonald, Executive Vice President and Chief Financial Officer, of Johnson Controls, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Annual Report on Form 10-K for the year ended September 30, 2006 (the “Periodic Report”) to which this statement is an exhibit fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and
- (2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Johnson Controls, Inc.

Dated: December 5, 2006

/s/ John M. Barth

John M. Barth
Chairman and
Chief Executive Officer

/s/ R. Bruce McDonald

R. Bruce McDonald
Executive Vice President and
Chief Financial Officer