

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

FORM 10-Q

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

For the quarterly period ended March 31, 2004

OR

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

For the transition period from _____ to

Commission File Number 1-5097

JOHNSON CONTROLS, INC.

(Exact name of registrant as specified in its charter)

Wisconsin
(State of Incorporation)

39-0380010
(I.R.S. Employer Identification No.)

5757 North Green Bay Avenue, P.O. Box 591, Milwaukee, WI 53201
(Address of principal executive office)

Registrant's telephone number, including area code: (414) 524-1200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Class
Common Stock \$.04 1/6 Par Value

Outstanding at March 31, 2004
190,026,068

JOHNSON CONTROLS, INC.

FORM 10-Q

March 31, 2004

REPORT INDEX

	<u>Page No.</u>
PART I - FINANCIAL INFORMATION:	
Item 1. Consolidated Financial Statements	
Consolidated Statement of Financial Position at March 31, 2004, September 30, 2003 and March 31, 2003	3
Consolidated Statement of Income for the Three- and Six-Month Periods Ended March 31, 2004 and 2003	4
Consolidated Statement of Cash Flows for the Three- and Six-Month Periods Ended March 31, 2004 and 2003	5
Notes to Consolidated Financial Statements	6
Report of Independent Accountants	16
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	27
Item 4. Controls and Procedures	27
PART II - OTHER INFORMATION:	
Item 1. Legal Proceedings	27
Item 2. Changes in Securities and Use of Proceeds.....	27
Item 4. Results of Votes of Security Holders	27
Item 6. Exhibits and Reports on Form 8-K	28
SIGNATURES	29

PART I. - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

JOHNSON CONTROLS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in millions; unaudited)

	March 31, 2004	September 30, 2003	March 31, 2003
ASSETS			
Cash and cash equivalents	\$ 226.4	\$ 136.1	\$ 278.1
Accounts receivable - net	3,780.2	3,539.1	3,193.7
Costs and earnings in excess of billings on uncompleted contracts	349.6	323.0	279.6
Inventories	846.4	825.9	804.7
Other current assets	799.8	796.2	688.1
Current assets	<u>6,002.4</u>	<u>5,620.3</u>	<u>5,244.2</u>
Property, plant and equipment - net	3,204.7	2,963.4	2,633.7
Goodwill - net	3,354.5	3,162.7	3,042.2
Other intangible assets - net	321.8	316.9	287.3
Investments in partially-owned affiliates	451.0	408.1	395.0
Other noncurrent assets	783.9	655.9	427.5
Total assets	<u>\$ 14,118.3</u>	<u>\$ 13,127.3</u>	<u>\$ 12,029.9</u>
LIABILITIES AND EQUITY			
Short-term debt	\$ 657.9	\$ 150.5	\$ 513.1
Current portion of long-term debt	32.2	427.8	327.7
Accounts payable	3,580.0	3,329.3	2,935.3
Accrued compensation and benefits	558.8	546.3	450.1
Accrued income taxes	69.9	58.7	99.4
Billings in excess of costs and earnings on uncompleted contracts	205.2	186.2	207.3
Other current liabilities	882.1	885.3	997.0
Current liabilities	<u>5,986.1</u>	<u>5,584.1</u>	<u>5,529.9</u>
Long-term debt	1,888.9	1,776.6	1,525.8
Postretirement health and other benefits	166.6	167.8	165.9
Minority interests in equity of subsidiaries	245.7	221.8	215.2
Other noncurrent liabilities	1,061.7	1,115.7	787.0
Shareholders' equity	4,769.3	4,261.3	3,806.1
Total liabilities and equity	<u>\$ 14,118.3</u>	<u>\$ 13,127.3</u>	<u>\$ 12,029.9</u>

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

JOHNSON CONTROLS, INC.

CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share data; unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
Net sales				
Products and systems*	\$ 5,658.6	\$ 4,647.9	\$ 11,178.6	\$ 9,063.8
Services*	961.5	855.2	1,825.6	1,622.6
	<u>6,620.1</u>	<u>5,503.1</u>	<u>13,004.2</u>	<u>10,686.4</u>
Cost of sales				
Products and systems	4,953.5	4,016.0	9,755.6	7,806.3
Services	816.8	724.9	1,537.5	1,368.5
	<u>5,770.3</u>	<u>4,740.9</u>	<u>11,293.1</u>	<u>9,174.8</u>
Gross profit	849.8	762.2	1,711.1	1,511.6
Selling, general and administrative expenses	588.9	524.9	1,188.4	1,026.4
Operating income	<u>260.9</u>	<u>237.3</u>	<u>522.7</u>	<u>485.2</u>
Interest income	3.9	2.2	5.8	4.2
Interest expense	(26.4)	(29.5)	(53.6)	(58.6)
Equity income	16.3	14.6	34.1	22.9
Miscellaneous - net	(5.4)	(15.1)	(30.0)	(17.5)
Other income (expense)	<u>(11.6)</u>	<u>(27.8)</u>	<u>(43.7)</u>	<u>(49.0)</u>
Income before income taxes and minority interests	249.3	209.5	479.0	436.2
Provision for income taxes	72.2	64.8	121.9	135.2
Minority interests in net earnings of subsidiaries	<u>19.4</u>	<u>12.5</u>	<u>34.9</u>	<u>28.4</u>
Net income	<u>\$ 157.7</u>	<u>\$ 132.2</u>	<u>\$ 322.2</u>	<u>\$ 272.6</u>
Earnings available for common shareholders	<u>\$ 157.7</u>	<u>\$ 130.3</u>	<u>\$ 320.4</u>	<u>\$ 268.9</u>
Earnings per share**				
Basic	<u>\$ 0.83</u>	<u>\$ 0.73</u>	<u>\$ 1.73</u>	<u>\$ 1.51</u>
Diluted	<u>\$ 0.82</u>	<u>\$ 0.70</u>	<u>\$ 1.67</u>	<u>\$ 1.44</u>

* Products and systems consist of Automotive Group products and systems and Controls Group installed systems.
Services are Controls Group technical and facility management services.

** Prior year per share amounts have been restated to reflect a two-for-one stock split (see Note 17).

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

JOHNSON CONTROLS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions; unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
Operating Activities				
Net income	\$ 157.7	\$ 132.2	\$ 322.2	\$ 272.6
Adjustments to reconcile net income to cash provided by operating activities				
Depreciation	147.3	130.9	290.2	259.9
Amortization of intangibles	5.3	5.1	11.0	9.6
Equity in earnings of partially-owned affiliates, net of dividends received	(16.0)	(11.6)	(20.4)	(19.8)
Minority interests in net earnings of subsidiaries	19.4	12.5	34.9	28.4
Deferred income taxes	41.1	2.1	48.3	5.7
Gain on sale of long-term investment	-	-	-	(16.6)
Japanese pension settlement gain	(84.4)	-	(84.4)	-
Other	(10.7)	4.5	(7.0)	(2.7)
Changes in working capital, excluding acquisition of businesses				
Receivables	(302.4)	(73.7)	(111.3)	176.1
Inventories	0.8	(8.4)	13.8	(18.5)
Other current assets	(25.4)	(25.5)	5.0	(50.1)
Accounts payable and accrued liabilities	432.6	140.2	53.9	(302.4)
Accrued income taxes	(10.1)	(58.5)	33.7	(87.0)
Billings in excess of costs and earnings on uncompleted contracts	(1.4)	8.9	12.2	12.7
Cash provided by operating activities	<u>353.8</u>	<u>258.7</u>	<u>602.1</u>	<u>267.9</u>
Investing Activities				
Capital expenditures	(231.0)	(134.1)	(434.6)	(240.7)
Sale of property, plant and equipment	8.6	0.9	15.8	6.9
Acquisition of businesses, net of cash acquired	-	(11.8)	(36.6)	(230.7)
Recoverable customer engineering expenditures	(46.1)	(17.2)	(95.2)	(24.9)
Proceeds from sale of long-term investment	-	-	-	38.2
Changes in long-term investments	4.0	1.2	(0.7)	(0.7)
Cash used by investing activities	<u>(264.5)</u>	<u>(161.0)</u>	<u>(551.3)</u>	<u>(451.9)</u>
Financing Activities				
(Decrease) increase in short-term debt - net	(61.3)	(98.0)	506.0	411.6
Increase in long-term debt	59.1	0.1	109.0	0.1
Repayment of long-term obligations	(106.7)	(15.2)	(530.6)	(138.0)
Payment of cash dividends	(79.9)	(62.8)	(85.3)	(68.0)
Other	23.3	4.7	40.4	(5.6)
Cash (used) provided by financing activities	<u>(165.5)</u>	<u>(171.2)</u>	<u>39.5</u>	<u>200.1</u>
(Decrease) increase in cash and cash equivalents	<u>\$ (76.2)</u>	<u>\$ (73.5)</u>	<u>\$ 90.3</u>	<u>\$ 16.1</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Financial Statements

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These condensed financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report to Shareholders for the year ended September 30, 2003. The September 30, 2003 Consolidated Statement of Financial Position is derived from the audited financial statements. The results of operations for the three- and six-month periods ended March 31, 2004 are not necessarily indicative of the results which may be expected for the Company's 2004 fiscal year because of seasonal and other factors. Certain prior period amounts have been reclassified to conform to the current year's presentation.

2. Stock-Based Compensation – Stock Options

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

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

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
Net income, as reported	\$ 157.7	\$ 132.2	\$ 322.2	\$ 272.6
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	3.7	1.7	7.3	2.2
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(5.3)	(3.9)	(10.8)	(7.3)
Pro forma net income	\$ 156.1	\$ 130.0	\$ 318.7	\$ 267.5
Earnings per share*				
Basic - as reported	\$ 0.83	\$ 0.73	\$ 1.73	\$ 1.51
Basic - pro forma	\$ 0.82	\$ 0.72	\$ 1.71	\$ 1.48
Diluted - as reported	\$ 0.82	\$ 0.70	\$ 1.67	\$ 1.44
Diluted - pro forma	\$ 0.81	\$ 0.68	\$ 1.66	\$ 1.41

*Prior year per share amounts have been restated to reflect a two-for-one stock split (see Note 17).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

3. Earnings Per Share

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

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
<u>Income Available to Common Shareholders</u>				
Net income	\$157.7	\$132.2	\$322.2	\$272.6
Preferred stock dividends, net of tax benefit	-	(1.9)	(1.8)	(3.7)
Basic income available to common shareholders	<u>\$157.7</u>	<u>\$130.3</u>	<u>\$320.4</u>	<u>\$268.9</u>
Net income	\$157.7	\$132.2	\$322.2	\$272.6
Effect of dilutive securities:				
Compensation expense, net of tax benefit, arising from assumed conversion of preferred stock	-	(0.5)	(0.1)	(1.0)
Diluted income available to common shareholders	<u>\$157.7</u>	<u>\$131.7</u>	<u>\$322.1</u>	<u>\$271.6</u>
<u>Weighted Average Shares Outstanding*</u>				
Basic weighted average shares outstanding	189.5	178.2	185.2	178.0
Effect of dilutive securities:				
Stock options	3.3	2.8	3.4	2.8
Convertible preferred stock	-	7.8	3.7	7.8
Diluted weighted average shares outstanding	<u>192.8</u>	<u>188.8</u>	<u>192.3</u>	<u>188.6</u>
<u>Antidilutive Securities</u>				
Options to purchase common shares	0.3	0.4	0.3	0.4

*Weighted average shares outstanding for the three- and six-month periods ended March 31, 2003 have been restated to reflect a two-for-one stock split (see Note 17). See also Note 4 regarding the conversion of the Series D Convertible Preferred Stock.

4. Conversion of Preferred Stock

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 Company's Employee Stock Ownership Plan (ESOP), and the 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, see Note 17) 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 stock outstanding amount used to compute basic EPS. The conversion of preferred shares has always been assumed in the determination of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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.

5. Acquisition of Businesses

On October 31, 2002, the Company acquired VARTA AG's Automotive Battery Division, a major European automotive battery manufacturer headquartered in Germany. The Varta Automotive Battery Division (Varta) consists of VARTA Automotive GmbH and the 80% majority ownership in VB Autobatterie GmbH. Restructuring reserves related to the Varta acquisition of approximately \$18 million were recorded. The majority of the reserves were established for severance costs related to workforce reductions of approximately 235 employees. Approximately \$2 million of severance costs, associated with workforce reductions of approximately 20 employees, have been incurred to date. The Varta restructuring activities are expected to be completed within the current fiscal year. In the first quarter of fiscal 2004, the Company made the final payment related to the Varta acquisition of \$36.6 million. In addition, the Company recorded a deferred tax adjustment in the second quarter of fiscal 2004 associated with the completion of its valuation studies which resulted in an increase in goodwill assigned to the Automotive Group of approximately \$46 million.

Effective September 1, 2000, the Company completed the acquisition of Ikeda Bussan Co. Ltd., a Japanese supplier of automotive seating. As part of this acquisition, a restructuring reserve of approximately \$54 million was recorded. The reserve was established for expected severance costs as the Company eliminates certain non-core activities to focus on the operation's principal seating and interiors businesses. Seven plants and facilities have been or will be closed as part of the restructuring plan, with resulting workforce reductions of approximately 1,000 employees. Through March 31, 2004 approximately \$30 million of severance costs associated with the restructuring plan were paid or incurred, and approximately 610 employees separated from the Company. In fiscal 2002, the Company recorded an adjustment to the restructuring reserve of approximately \$10 million which resulted in a decrease to the goodwill assigned to the Automotive Group of approximately \$6 million. The reserve balance at March 31, 2004 of approximately \$14 million represents remaining severance payments to be made in accordance with underlying agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

6. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six-month period ended September 30, 2003 and the six-month period ended March 31, 2004 were as follows:

(in millions)	Automotive Group	Controls Group	Total
Balance as of March 31, 2003	\$2,615.6	\$426.6	\$3,042.2
Goodwill from business acquisitions	29.4	-	29.4
Currency translation	89.5	5.0	94.5
Other	(6.9)	3.5	(3.4)
Balance as of September 30, 2003	2,727.6	435.1	3,162.7
Goodwill from business acquisitions	46.2	-	46.2
Currency translation	105.0	32.1	137.1
Other	8.3	0.2	8.5
Balance as of March 31, 2004	<u>\$2,887.1</u>	<u>\$467.4</u>	<u>\$3,354.5</u>

See Note 5 for discussion of goodwill from business acquisitions.

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

(in millions)	March 31, 2004			September 30, 2003			March 31, 2003		
	Gross		Net	Gross		Net	Gross		Net
	Carrying Amount	Accumulated Amortization		Carrying Amount	Accumulated Amortization		Carrying Amount	Accumulated Amortization	
Amortized intangible assets									
Patented technology	\$218.9	\$(78.7)	\$140.2	\$215.1	\$(71.5)	\$143.6	\$216.8	\$(64.0)	\$152.8
Unpatented technology	87.2	(10.5)	76.7	81.5	(7.4)	74.1	62.8	(6.1)	56.7
Customer relationships	84.6	(4.9)	79.7	78.4	(3.3)	75.1	59.1	(2.7)	56.4
Miscellaneous	10.8	(6.9)	3.9	10.7	(6.3)	4.4	11.8	(6.1)	5.7
Total amortized intangible assets	401.5	(101.0)	300.5	385.7	(88.5)	297.2	350.5	(78.9)	271.6
Unamortized intangible assets									
Trademarks	12.4	-	12.4	10.9	-	10.9	9.6	-	9.6
Pension asset	8.9	-	8.9	8.8	-	8.8	6.1	-	6.1
Total unamortized intangible assets	21.3	-	21.3	19.7	-	19.7	15.7	-	15.7
Total other intangible assets	<u>\$422.8</u>	<u>\$(101.0)</u>	<u>\$321.8</u>	<u>\$405.4</u>	<u>\$(88.5)</u>	<u>\$316.9</u>	<u>\$366.2</u>	<u>\$(78.9)</u>	<u>\$287.3</u>

Excluding the impact of any future acquisitions, the Company anticipates annual amortization of other intangible assets will approximate \$23 million for each of the next five years.

7. Guarantees

At March 31, 2004, the Company had guaranteed certain financial liabilities, the majority of which relate to debt obligations of unconsolidated affiliates. The term of each of the guarantees is equal to the remaining term of the underlying debt, which matures in one year. Payment by the Company would be required upon default by

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

the unconsolidated affiliate. The maximum amount of future payments which the Company could be required to make under these guarantees at March 31, 2004 was \$1.2 million.

The Company has guaranteed the residual value related to the Company aircraft accounted for as synthetic leases. The guarantees extend through the maturity of each respective underlying lease in September 2006. In the event the Company exercised its option not to purchase the aircraft for the remaining obligations at the scheduled maturity of the leases, the Company has guaranteed the majority of the residual values, not to exceed \$53 million in aggregate. The Company has recorded a liability equal to the fair value of the guarantee of approximately \$6 million within other noncurrent liabilities and a corresponding amount within other noncurrent assets in the Consolidated Statement of Financial Position relating to the Company's obligation under the guarantees. These amounts are being amortized over the life of the guarantees.

8. Product Warranties

The Company provides warranties to certain of its customers depending upon the specific product and terms of the customer purchase agreement. Most of the Company's product warranties are customer specific. A typical warranty program requires replacement of defective products within a specified time period from the date of sale. The Company records an estimate for future warranty-related costs based on actual historical return rates. Based on analysis of return rates and other factors, the warranty provisions are adjusted as necessary. While warranty costs have historically been within calculated estimates, it is possible that future warranty costs could exceed those estimates. The Company's product warranty liability is included in other current liabilities in the Consolidated Statement of Financial Position.

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

(in millions)	
Balance as of September 30, 2003*	\$85.2
Accruals for warranties issued during the period	19.7
Accruals related to pre-existing warranties (including changes in estimates)	(7.9)
Settlements made (in cash or in kind) during the period	(20.8)
Currency translation	1.5
Balance as of March 31, 2004	<u>\$77.7</u>

*Adjusted to conform to current account classifications.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

9. Inventories

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

(in millions)	March 31, 2004	September 30, 2003	March 31, 2003
Raw materials and supplies	\$453.1	\$435.5	\$388.1
Work-in-process	116.9	105.8	131.3
Finished goods	303.0	310.9	314.7
FIFO inventories	873.0	852.2	834.1
LIFO reserve	(26.6)	(26.3)	(29.4)
Inventories	<u>\$846.4</u>	<u>\$825.9</u>	<u>\$804.7</u>

10. Comprehensive Income

Comprehensive income is defined as the sum of net income and all other non-owner changes in equity, including foreign currency translation, unrealized gains and losses on equity securities, realized and unrealized gains and losses on derivatives and minimum pension liability adjustments. Comprehensive income for the three-month periods ended March 31, 2004 and 2003 was \$195 million and \$171 million, respectively. Comprehensive income for the six-month periods ended March 31, 2004 and 2003 was \$508 million and \$349 million, respectively. The difference between comprehensive income and net income for the periods presented principally represents foreign currency translation adjustments (CTA). Specifically, for the six months ended March 31, 2004, comprehensive income related to CTA was \$190 million versus \$91 million in the prior year. The higher CTA in the current year is primarily due to the approximate 16% year-over-year increase in the euro.

The Company has foreign currency-denominated debt obligations and cross-currency interest rate swaps which are designated as hedges of net investments in foreign subsidiaries. Gains and losses, net of tax, attributable to these hedges are deferred as CTA within the accumulated other comprehensive income (loss) account. Net losses of approximately \$6 million and \$19 million were recorded for the three-month periods ending March 31, 2004 and 2003, respectively. Net losses of approximately \$45 million and \$36 million were recorded for the six-month periods ending March 31, 2004 and 2003, respectively.

11. Segment Information

The Company has two operating segments, the Automotive Group and the Controls Group, which also constitute its reportable segments. The Automotive Group designs and manufactures products for motorized vehicles. The segment supplies interior systems and batteries for cars, light trucks and vans. The Controls Group provides

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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

Management's evaluation of the performance of the Company's segments excludes significant restructuring costs and other significant non-recurring gains or losses. As such, the restructuring costs (see Note 13) and the pension gain (see Note 15) recorded in the second quarter of fiscal year 2004 were excluded from management's evaluation of segment performance. Financial information relating to the Company's reportable segments was as follows:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
<u>Sales</u>				
Automotive Group	\$ 5,100.3	\$ 4,131.4	\$ 10,077.6	\$ 8,072.8
Controls Group	1,519.8	1,371.7	2,926.6	2,613.6
Total	<u>\$ 6,620.1</u>	<u>\$ 5,503.1</u>	<u>\$ 13,004.2</u>	<u>\$ 10,686.4</u>
<u>Operating Income</u>				
Automotive Group (1)	\$ 203.5	\$ 171.3	\$ 410.7	\$ 367.4
Controls Group (2)	55.4	66.0	110.0	117.8
Total segment operating income	258.9	237.3	520.7	485.2
Restructuring costs	(82.4)	-	(82.4)	-
Pension gain	84.4	-	84.4	-
Consolidated operating income	<u>\$ 260.9</u>	<u>\$ 237.3</u>	<u>\$ 522.7</u>	<u>\$ 485.2</u>

- (1) Automotive Group operating income for the three and six months ended March 31, 2004 excludes \$69.1 million of restructuring costs and a pension gain of \$84.4 million, both of which are included within Selling, general and administrative expenses in the Consolidated Statement of Income.
- (2) Controls Group operating income for the three and six months ended March 31, 2004 excludes \$13.3 million of restructuring costs included within Selling, general and administrative expenses in the Consolidated Statement of Income.

Total assets of the Automotive Group increased approximately \$800 million from the \$10.2 billion balance at fiscal year-end. The increase was primarily attributable to the strengthening in the euro from September 30, 2003 to March 31, 2004 and capital expenditures in the current year.

12. Income Taxes

The provision for income taxes is determined by applying an estimated annual effective income tax rate to income before income taxes. The rate is based on the most recent annualized forecast of pretax income, permanent book/tax differences and tax credits. It also includes the effect of any valuation allowance expected to be necessary at the end of the year. The Company's estimated annual effective tax rate declined to 29% from 31% for the prior year due to continuing global tax planning initiatives. The fiscal 2004 first quarter and the year-to-date rate further benefited

