JOHNSON CONTROLS INC
Form 10-Q
May 11, 2009

Table of Contents

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended March 31, 2009**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission File Number: 1-5097

JOHNSON CONTROLS, INC.
(Exact name of registrant as specified in its charter)

Wisconsin *(State or Other Jurisdiction of Incorporation or Organization)*	**39-0380010** *(I.R.S. Employer Identification No.)*
5757 North Green Bay Avenue Milwaukee, Wisconsin *(Address of principal executive offices)*	**53209** *(Zip Code)*

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

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

Class	**Shares Outstanding at March 31, 2009**
Common Stock: $0.017/18 par value per share	594,263,055

JOHNSON CONTROLS, INC.
Form 10-Q
Report Index

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Johnson Controls, Inc.
Condensed Consolidated Statements of Financial Position
(in millions; unaudited)

	March 31, 2009	September 30, 2008	March 31, 2008
Assets			
Cash and cash equivalents	$ 311	$ 384	$ 233
Accounts receivable net	4,745	6,472	6,451
Inventories	1,648	2,099	2,209
Other current assets	1,748	1,721	1,716
Current assets	8,452	10,676	10,609
Property, plant and equipment net	3,949	4,389	4,324
Goodwill	6,320	6,513	6,401
Other intangible assets net	749	769	793
Investments in partially-owned affiliates	668	863	854
Other noncurrent assets	1,586	1,777	1,638
Total assets	$ 21,724	$ 24,987	$ 24,619
Liabilities and Shareholders Equity			
Short-term debt	$ 621	$ 456	$ 574
Current portion of long-term debt	176	287	443
Accounts payable	3,540	5,225	5,238
Accrued compensation and benefits	830	1,024	914
Accrued income taxes		117	90
Other current liabilities	2,520	2,701	2,254
Current liabilities	7,687	9,810	9,513
Long-term debt	3,994	3,201	3,301
Postretirement health and other benefits	222	236	260
Other noncurrent liabilities	1,722	2,080	1,800
Long-term liabilities	5,938	5,517	5,361

Commitments and contingencies (Note 19)

Minority interests in equity of subsidiaries	199	236	150
Shareholders equity	7,900	9,424	9,595
Total liabilities and shareholders equity	$ 21,724	$ 24,987	$ 24,619

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

Table of Contents

Johnson Controls, Inc.
Consolidated Statements of Income
(in millions, except per share data; unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
Net sales				
Products and systems*	$ 4,717	$ 7,593	$ 10,364	$ 15,302
Services*	1,598	1,813	3,287	3,588
	6,315	9,406	13,651	18,890
Cost of sales				
Products and systems	4,362	6,646	9,635	13,388
Services	1,271	1,450	2,649	2,885
	5,633	8,096	12,284	16,273
Gross profit	682	1,310	1,367	2,617
Selling, general and administrative expenses	(803)	(888)	(1,662)	(1,838)
Restructuring costs	(230)		(230)	
Net financing charges	(46)	(66)	(102)	(135)
Equity income (loss)	2	31	(134)	48
Income (loss) before income taxes and minority interests	(395)	387	(761)	692
Provision for income taxes	(183)	81	59	145
Minority interests in net earnings (loss) of subsidiaries	(19)	17	(19)	23
Net income (loss)	$ (193)	$ 289	$ (801)	$ 524
Earnings (loss) per share				
Basic	$ (0.33)	$ 0.49	$ (1.35)	$ 0.88
Diluted	$ (0.33)	$ 0.48	$ (1.35)	$ 0.87

* Products and systems consist of automotive experience and power solutions products and systems and building efficiency installed

systems.
Services are
building
efficiency
technical and
global
workplace
solutions.

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

Table of Contents

Johnson Controls, Inc.
Condensed Consolidated Statements of Cash Flows
(in millions; unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Six Months Ended March 31, 2009	Six Months Ended March 31, 2008
Operating Activities				
Net income (loss)	$ (193)	$ 289	$ (801)	$ 524
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation	182	185	363	366
Amortization of intangibles	9	9	18	19
Equity in earnings of partially-owned affiliates, net of dividends received	27	(22)	211	
Minority interests in net earnings (loss) of subsidiaries	(19)	17	(19)	23
Deferred income taxes	(78)	(29)	222	(20)
Impairment charges	46		156	
Equity-based compensation	8	13	28	33
Other	(1)		14	19
Changes in working capital, excluding acquisitions and divestitures of businesses:				
Accounts receivable	196	(57)	1,324	429
Inventories	263	(68)	341	(150)
Other current assets	(92)	(57)	(7)	39
Restructuring reserves	83	(18)	31	(32)
Accounts payable and accrued liabilities	(97)	75	(1,753)	(760)
Accrued income taxes	(152)	(39)	(263)	(14)
Cash provided (used) by operating activities	182	298	(135)	476
Investing Activities				
Capital expenditures	(158)	(174)	(426)	(361)
Sale of property, plant and equipment		17	3	32
Acquisition of businesses, net of cash acquired	(10)	(43)	(32)	(69)
Recoverable customer engineering expenditures	(26)	19	(48)	15
Settlement of cross-currency interest rate swaps	31	(61)	31	(93)
Changes in long-term investments	(15)		(63)	(12)
Cash used by investing activities	(178)	(242)	(535)	(488)
Financing Activities				
Increase (decrease) in short-term debt net	(362)	370	187	283
Increase in long-term debt net	878	232	878	233
Repayment of long-term debt	(322)	(691)	(331)	(712)
Payment of cash dividends	(77)	(78)	(154)	(143)

Stock repurchases		(38)		(73)
Other	(12)	(25)	17	(17)
Cash provided (used) by financing activities	105	(230)	597	(429)
Increase (decrease) in cash and cash equivalents	$ 109	$ (174)	$ (73)	$ (441)

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

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
March 31, 2008
(unaudited)

1. Financial Statements

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Johnson Controls, Inc. (the Company) Annual Report on Form 10-K for the year ended September 30, 2008. The results of operations for the three and six month periods ended March 31, 2009 are not necessarily indicative of results for the Company s 2009 fiscal year because of seasonal and other factors.

The consolidated financial statements include the accounts of Johnson Controls, Inc. and its domestic and non-U.S. subsidiaries that are consolidated in conformity with 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% and the Company does not have a controlling interest.

Certain prior period amounts have been revised to conform to the current year s presentation. Prior year net sales and cost of sales amounts between Products and systems and Services have been reclassified. In addition, the financial results for the three and six month periods ended March 31, 2009, include out of period adjustments of $29 million and $62 million, respectively, made to correct an error related to the power solutions segment that reduce segment income. The errors primarily originated in 2007 and 2008 and resulted in the overstatement of inventory and understatement of cost of sales in prior periods.

Under certain criteria as provided for in Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46(R), Consolidation of Variable Interest Entities an Interpretation of ARB No. 51, the Company may consolidate a partially-owned affiliate when it has less than a 50% ownership. In order to determine whether to consolidate a partially-owned affiliate when the Company has less than a 50% ownership, we first determine if the entity is a variable interest entity (VIE). An entity is considered to be a VIE if it has one of the following characteristics: 1) the entity is thinly capitalized; 2) residual equity holders do not control the entity; 3) equity holders are shielded from economic losses or do not participate fully in the entity s residual economics; or 4) the entity was established with non-substantive voting. If the entity meets one of these characteristics, we then determine if the Company is the primary beneficiary of the VIE. Under FIN 46(R), the party exposed to the majority of the risks and rewards associated with the VIE is the VIE s primary beneficiary and must consolidate the entity.

Based upon the criteria set forth in FIN 46(R), the Company has determined that at March 31, 2009 it was the primary beneficiary in two VIE s in which it holds less than 50% ownership as the Company funds the entities short-term liquidity needs. Both entities are consolidated within the automotive experience North America segment. The carrying amounts and classification of assets and liabilities included in our consolidated statements of financial position are as follows (in millions):

	March 31,	
	2009	2008

Current assets	$ 88	$ 118
Noncurrent assets	111	130
Total assets	$ 199	$ 248
Current liabilities	$ 79	$ 125
Noncurrent liabilities		
Total liabilities	$ 79	$ 125

As of March 31, 2009, the Company did not have a significant variable interest in any unconsolidated VIE s.

6

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

2. New Accounting Standards

In April 2009, the FASB issued Staff Position (FSP) Financial Accounting Standards (FAS) 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP requires disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This statement is effective for the Company beginning in the third quarter of fiscal 2009 (April 1, 2009) with early adoption permitted. The Company adopted this FSP effective January 1, 2009 and has determined that the impact of adoption is not material to its consolidated financial condition and results of operation. See Note 15, Derivative Instruments and Hedging Activities, and Note 16, Fair Value Measurements, for disclosure of the Company s fair value of financial instruments as of March 31, 2009.

In May 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the accounting principles to be used in the preparation of the financial statement presented in conformity with U.S. GAAP. This statement is effective sixty days after approval by the SEC of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. SFAS No. 162 is now effective for the Company. The adoption of this statement did not have a material impact on the Company s financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 was effective for the Company beginning in the second quarter of fiscal 2009 (January 1, 2009). See Note 15, Derivative Instruments and Hedging Activities, for more information regarding the impact of the Company s adoption of SFAS No. 161.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations. SFAS No. 141(R) changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141(R) will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). This standard, when adopted, will change the Company s accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method changes the accounting for transactions with minority interest holders. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). The Company is assessing the potential impact that the adoption of SFAS No. 160 will have on its consolidated financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment to FASB Statement No. 115. SFAS No. 159 permits entities to measure certain financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company adopted this statement effective October 1, 2008 and has not elected to measure any financial assets and financial liabilities at fair value which were not

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

previously required to be measured at fair value. The adoption of this standard has had no impact on the Company s consolidated financial condition and results of operations.

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. The Company adopted this statement effective October 1, 2008. The adoption of this standard has had no material impact on the Company s consolidated financial condition and results of operation. See Note 16, Fair Value Measurements, for more information regarding the impact of the Company s adoption of SFAS No. 157. In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. The Company has not applied the provisions of SFAS No. 157 to its nonfinancial assets and nonfinancial liabilities in accordance with FSP FAS 157-2 as of March 31, 2009. The provisions of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009).

3. Acquisition of Businesses

During fiscal 2009 the Company completed two acquisitions for a combined purchase price of $37 million, of which $32 million was paid in the six months ended March 31, 2009. Neither of the acquisitions was material to the Company s consolidated financial statements. In connection with these acquisitions, the Company recorded goodwill of $24 million. The purchase price allocation may be subsequently adjusted to reflect final valuation studies.

In the first quarter of fiscal 2008, the Company completed three acquisitions for a combined purchase price of $75 million, of which $69 million was paid in the six months ended March 31, 2008. None of the acquisitions was material to the Company s consolidated financial statements. In connection with these acquisitions, the Company recorded goodwill of $36 million.

4. 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 condensed consolidated statements of financial position. Amounts included within accounts receivable net related to these contracts were $512 million, $670 million and $618 million at March 31, 2009, September 30, 2008, and March 31, 2008, respectively. Amounts included within other current liabilities were $609 million, $654 million and $544 million at March 31, 2009, September 30, 2008, and March 31, 2008, respectively.

5. Inventories

Inventories consisted of the following (in millions):

	March 31, 2009	September 30, 2008	March 31, 2008
Raw materials and supplies	$ 731	$ 902	$ 923
Work-in-process	228	324	359
Finished goods	801	985	989
FIFO inventories	1,760	2,211	2,271
LIFO reserve	(112)	(112)	(62)
Inventories	$ 1,648	$ 2,099	$ 2,209

8

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

6. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill in each of the Company s reporting segments for the six month period ended September 30, 2008 and the six month period ended March 31, 2009 were as follows (in millions):

	March 31, 2008	Business Acquisitions	Currency Translation and Other	September 30, 2008
Building efficiency				
North America systems	$ 506	$ 10	$ (1)	$ 515
North America service	653	7	(3)	657
North America unitary products	481			481
Global workplace solutions	181	6	(9)	178
Europe	411		17	428
Rest of world	587		(13)	574
Automotive experience				