JOHNSON CONTROLS INC
Form 10-Q
May 03, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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

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 x No ¨

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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 ¨ No x

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, 2012
Common Stock: $0.01 7/18 par value per share	680,200,626

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FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Johnson Controls, Inc.

Condensed Consolidated Statements of Financial Position

(in millions; unaudited)

	March 31, 2012	September 30, 2011	March 31, 2011
Assets			
Cash and cash equivalents	$ 240	$ 257	$ 401
Accounts receivable net	7,402	7,151	6,946
Inventories	2,374	2,316	2,239
Other current assets	2,346	2,291	2,620
Current assets	12,362	12,015	12,206
Property, plant and equipment net	6,086	5,616	4,761
Goodwill	7,040	7,016	6,807
Other intangible assets net	966	945	832
Investments in partially-owned affiliates	961	811	864
Other noncurrent assets	3,558	3,273	3,198
Total assets	$ 30,973	$ 29,676	$ 28,668
Liabilities and Equity			
Short-term debt	$ 530	$ 596	$ 106
Current portion of long-term debt	148	17	53
Accounts payable	6,313	6,159	6,082
Accrued compensation and benefits	956	1,315	1,070
Other current liabilities	2,608	2,695	2,861
Current liabilities	10,555	10,782	10,172
Long-term debt	5,645	4,533	4,382
Pension, postretirement health and other benefits	782	1,102	803
Other noncurrent liabilities	1,928	1,819	1,982
Long-term liabilities	8,355	7,454	7,167
Commitments and contingencies (Note 17)			
Redeemable noncontrolling interests	318	260	223
Shareholders equity attributable to Johnson Controls, Inc.	11,595	11,042	10,976
Noncontrolling interests	150	138	130
Total equity	11,745	11,180	11,106

Total liabilities and equity	$ 30,973	$ 29,676	$ 28,668

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

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Johnson Controls, Inc.

Consolidated Statements of Income

(in millions, except per share data; unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011
Net sales				
Products and systems*	$ 8,495	$ 8,107	$ 16,829	$ 15,702
Services*	2,070	2,037	4,153	3,979
	10,565	10,144	20,982	19,681
Cost of sales				
Products and systems*	7,302	6,973	14,464	13,501
Services*	1,714	1,697	3,437	3,292
	9,016	8,670	17,901	16,793
Gross profit	1,549	1,474	3,081	2,888
Selling, general and administrative expenses	(1,069)	(1,014)	(2,123)	(1,961)
Net financing charges	(63)	(46)	(112)	(81)
Equity income	79	61	199	127
Income before income taxes	496	475	1,045	973
Provision for income taxes	94	90	198	185
Net income	402	385	847	788
Income attributable to noncontrolling interests	38	31	73	59
Net income attributable to Johnson Controls, Inc.	$ 364	$ 354	$ 774	$ 729
Earnings per share				
Basic	$ 0.54	$ 0.52	$ 1.14	$ 1.08
Diluted	$ 0.53	$ 0.51	$ 1.12	$ 1.06

* 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.

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Johnson Controls, Inc.

Consolidated Statements of Cash Flows

(in millions; unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011
Operating Activities				
Net income attributable to Johnson Controls, Inc.	$ 364	$ 354	$ 774	$ 729
Income attributable to noncontrolling interests	38	31	73	59
Net income	402	385	847	788
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation	189	173	371	331
Amortization of intangibles	11	12	25	23
Equity in earnings of partially-owned affiliates, net of dividends received	(59)	(51)	(161)	(73)
Deferred income taxes	(34)		26	
Impairment charges	14		14	
Gain on divestitures net	(35)		(35)	
Fair value adjustment of equity investment	(12)		(12)	
Equity-based compensation	16	14	35	36
Other	23	4	41	
Changes in assets and liabilities, excluding acquisitions and divestitures				
Receivables	(277)	(562)	(71)	(515)
Inventories	(74)	(200)	(69)	(299)
Other assets	(9)	(87)	(195)	(137)
Accounts payable and accrued liabilities	167	366	(479)	56
Accrued income taxes	(79)	(18)	(191)	(81)
Cash provided by operating activities	243	36	146	129
Investing Activities				
Capital expenditures	(448)	(275)	(986)	(535)
Sale of property, plant and equipment	3	7	6	18
Acquisition of businesses, net of cash acquired	(19)	(534)	(30)	(629)
Business divestitures	91		91	
Settlement of cross-currency interest rate swaps	(9)		(19)	
Changes in long-term investments	2	(38)	(98)	(50)
Warrant redemption			25	
Cash used by investing activities	(380)	(840)	(1,011)	(1,196)
Financing Activities				
Increase (decrease) in short-term debt net	186	(89)	(98)	13
Increase in long-term debt	136	1,732	1,235	1,735
Repayment of long-term debt	(9)	(667)	(16)	(759)
Stock repurchases	(33)		(33)	
Payment of cash dividends	(123)	(109)	(232)	(196)
Proceeds from the exercise of stock options	16	24	21	85
Settlement of interest rate swaps				24
Cash paid to acquire a noncontrolling interest	(9)		(19)	
Other	(8)	(3)	(21)	(8)

Cash provided by financing activities	156	888	837	894
Effect of exchange rate changes on cash and cash equivalents	(20)	(4)	11	14
Increase (decrease) in cash and cash equivalents	(1)	80	(17)	(159)
Cash and cash equivalents at beginning of period	241	321	257	560
Cash and cash equivalents at end of period	$ 240	$ 401	$ 240	$ 401

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

Johnson Controls, Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2012

(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, 2011. The results of operations for the three and six month periods ended March 31, 2012 are not necessarily indicative of results for the Company s 2012 fiscal year because of seasonal and other factors.

Certain amounts as of March 31, 2011 have been revised to conform to the current year s presentation. Recoverable customer engineering expenditures are included in the changes in other assets line within the operating activities section of the consolidated statements of cash flows. In prior years, these cash flows were included in the investing activities section. Also, the long-term portion of pension liabilities is now reclassified into the pension, postretirement health and other benefits line within the long-term liabilities section of the condensed consolidated statements of financial position. In prior years, these liabilities were included in the other noncurrent liabilities line.

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.

Under certain criteria as provided for in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, Consolidation, the Company may consolidate a partially-owned affiliate. To determine whether to consolidate a partially-owned affiliate, the Company first determines 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, the Company then determines if it is the primary beneficiary of the VIE. The party with the power to direct activities of the VIE that most significantly impact the VIE s economic performance and the potential to absorb benefits or losses that could be significant to the VIE is considered the primary beneficiary and consolidates the VIE. If the entity is not considered a VIE, then the Company applies the voting interest model to determine whether or not the Company shall consolidate the partially-owned affiliate.

Consolidated VIEs

Based upon the criteria set forth in ASC 810, the Company has determined that it was the primary beneficiary in three VIEs for the reporting period ended March 31, 2012 and two VIEs for the reporting periods ended September 30, 2011 and March 31, 2011, as the Company absorbs significant economics of the entities and has the power to direct the activities that are considered most significant to the entities.

Two of the VIEs manufacture products in North America for the automotive industry. The Company funds the entities short term liquidity needs through revolving credit facilities and has the power to direct the activities that are considered most significant to the entities through its key customer supply relationships.

During the three month period ended December 31, 2011, a pre-existing VIE accounted for under the equity method was reorganized into three separate investments as a result of the counterparty exercising its option to put its interest to the Company. The Company acquired additional interests in two of the reorganized group entities. The reorganized group entities are considered to be VIEs as the other owner party has been provided decision making rights but does not have equity at risk. The Company is considered the primary beneficiary of one of the entities due

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Johnson Controls, Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2012

(unaudited)

to the Company s power pertaining to decisions over significant activities of the entity. As such, the VIE has been consolidated within the Company s condensed consolidated statement of financial position. The impact of the consolidation of the entity on the Company s consolidated statements of income for the three and six month periods ended March 31, 2012 was not material. The VIE is named as a co-obligor under a third party debt agreement of $135 million, maturing in fiscal 2019, in which it could become subject to paying more than its allocated share of the third party debt in the event of bankruptcy of one or more of the other co-obligors. The other co-obligors, all related parties in which the Company is an equity investor, consist of the remaining group entities involved in the reorganization. As part of the overall reorganization transaction, the Company has also provided financial support to the group entities in the form of loans totaling $101 million, which are subordinate to the third party debt agreement. The Company is a significant customer of certain co-obligors, resulting in a remote possibility of loss. Additionally, the Company is subject to a floor guaranty expiring in fiscal 2022; in the event that the other owner party no longer owns any part of the group entities due to sale or transfer, the Company has guaranteed that the proceeds received from the sale or transfer will not be less than $25 million. The Company has partnered with the group entities to design and manufacture battery components for the power solutions business.

The carrying amounts and classification of assets (none of which are restricted) and liabilities included in the Company s condensed consolidated statements of financial position for the consolidated VIEs are as follows (in millions):

	March 31, 2012	September 30, 2011	March 31, 2011
Current assets	$ 218	$ 207	$ 227
Noncurrent assets	168	55	62
Total assets	$ 386	$ 262	$ 289
Current liabilities	$ 151	$ 144	$ 175
Noncurrent liabilities	41		
Total liabilities	$ 192	$ 144	$ 175

Nonconsolidated VIEs

During the three month period ended June 30, 2011, the Company acquired a 40% interest in an equity method investee. The investee produces and sells lead-acid batteries of which the Company will both purchase and supply certain batteries to complement each investment partners portfolio. Commencing on the third anniversary of the closing date, the Company has a contractual right to purchase the remaining 60% equity interest in the investee (the call option). If the Company does not exercise the call option on or before the fifth anniversary of the closing date, for a period of six months thereafter the Company is subject to a contractual obligation at the counterparty s option to sell the Company s equity investment in the investee to the counterparty (the repurchase option). The purchase price is fixed under both the call option and the repurchase option. Based upon the criteria set forth in ASC 810, the Company has determined that the investee is a VIE as the equity holders, through their equity investments, may not participate fully in the entity s residual economics. The Company is not the primary beneficiary as the Company does not have the power to make key operating decisions considered to be most significant to the VIE. Therefore, the investee is accounted for under the equity method of accounting as the Company s interest exceeds 20% and the Company does not have a controlling interest. The investment balance included within investments in partially-owned affiliates in the condensed consolidated statements of financial position at March 31, 2012 and September 30, 2011 was $52 million and $49 million, respectively, which represents the Company s maximum exposure to loss. Current assets and liabilities related to the VIE are immaterial and represent normal course of business trade receivables and payables for all presented periods.

As mentioned previously within the Consolidated VIEs section above, during the three month period ended December 31, 2011, a pre-existing VIE was reorganized into three separate investments as a result of the counterparty exercising its option to put its interest to the Company. The reorganized group entities are considered to be VIEs as the other owner party has been provided decision making rights but does not have equity at risk. The

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(unaudited)

Company is not considered to be the primary beneficiary of two of the entities as the Company cannot make key operating decisions considered to be most significant to the VIEs. Therefore, the entities are accounted for under the equity method of accounting as the Company s interest exceeds 20% and the Company does not have a controlling interest. The Company s maximum exposure to loss, which included the partially-owned affiliate investment balance and a note receivable, approximated $43 million and $42 million at September 30, 2011 and March 31, 2011, respectively. The Company s maximum exposure to loss at March 31, 2012 includes the partially-owned affiliate investment balance of $39 million as well as the subordinated loan from the Company, third party debt agreement and floor guaranty mentioned previously within the Consolidated VIEs section above. Current liabilities due to the VIEs are not material and represent normal course of business trade payables for all presented periods.

The Company did not have a significant variable interest in any other unconsolidated VIEs for the presented reporting periods.

2. New Accounting Standards

In December 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU No. 2011-11 requires additional quantitative and qualitative disclosures of gross and net information regarding financial instruments and derivative instruments that are offset or eligible for offset in the consolidated statement of financial position. ASU No. 2011-11 will be effective for the Company for the quarter ending December 31, 2013. The adoption of this guidance will have no impact on the Company s consolidated financial condition and results of operations.

In September 2011, the FASB issued ASU No. 2011-09, Compensation Retirement Benefits Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer s Participation in a Multiemployer Plan. ASU No. 2011-09 requires additional quantitative and qualitative disclosures about an employer s participation in multiemployer pension plans, including disclosure of the name and identifying number of the significant multiemployer plans in which the employer participates, the level of the employer s participation in the plans, the financial health of the plans and the nature of the employer commitments to the plans. ASU No. 2011-09 will be effective for the Company for the fiscal year ending September 30, 2012. The adoption of this guidance will have no impact on the Company s consolidated financial condition and results of operations.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU No. 2011-08 provides companies an option to perform a qualitative assessment to determine whether further goodwill impairment testing is necessary. If, as a result of the qualitative assessment, it is determined that it is more likely than not that a reporting unit s fair value is less than its carrying amount, the two-step quantitative impairment test is required. Otherwise, no further testing is required. ASU No. 2011-08 will be effective for the Company for goodwill impairment tests performed in the fiscal year ending September 30, 2013, with early adoption permitted. The adoption of this guidance will have no impact on the Company s consolidated financial condition and results of operations.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU No. 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of shareholders equity. All non-owner changes in shareholders equity instead must be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-05 will be effective for the Company for the quarter ending December 31, 2012. The adoption of this guidance will have no impact on the Company s consolidated financial condition and results of operations.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU No. 2011-04 clarifies and changes the application of various fair value measurement principles and disclosure requirements, and was effective for the Company beginning in the second quarter of fiscal 2012 (January 1, 2012). The adoption of this guidance had no impact on the Company s consolidated financial condition and results of operations. Refer to Note

Johnson Controls, Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2012

(unaudited)

14, Fair Value Measurements, of the notes to condensed consolidated financial statements for disclosures surrounding the Company s fair value measurements.

3. Acquisitions and Divestitures

In the first six months of fiscal 2012, the Company completed three acquisitions for a combined purchase price, net of cash acquired, of $38 million, all of which was paid in the six months ended March 31, 2012. The acquisitions in the aggregate were not material to the Company s consolidated financial statements. In connection with the acquisitions, the Company recorded goodwill of $71 million. The purchase price allocation may be subsequently adjusted to reflect final valuation studies. As a result of two of the acquisitions, which increased the Company s ownership from a noncontrolling to controlling interest, the Company recorded a non-cash gain of $12 million, of which $9 million was recorded within power solutions equity income and $3 million was recorded in automotive experience Europe equity income, to adjust the Company s existing equity investments in the partially-owned affiliates to fair value.

In the first six months of fiscal 2012, the Company adjusted the purchase price allocation of certain fiscal 2011 acquisitions. The adjustments were as a result of a true-up to the purchase price in the amount of $8 million, for which the cash was received in the first quarter of fiscal 2012. Also, in connection with these acquisitions, the Company recorded a reduction in goodwill of $1 million in fiscal 2012 related to the purchase price allocations. The purchase price allocations may be subsequently adjusted to reflect final valuation studies.

In the second quarter of fiscal 2012, the Company completed two divestitures for a combined sales price of $91 million, all of which was received in the three months ended March 31, 2012. The divestitures in the aggregate were not material to the Company s consolidated financial statements. In connection with the divestitures, the Company recorded a gain, net of transaction costs, of $35 million and reduced goodwill by $29 million in the building efficiency business.

During the second quarter of fiscal 2011, the Company completed its acquisition of the C. Rob. Hammerstein Group (Hammerstein), a leading global supplier of high-quality metal seat structures, components and mechanisms based in Solingen, Germany. The total purchase price, net of cash acquired, was approximately $529 million, of which $521 million was paid during the three months ended March 31, 2011. In connection with the Hammerstein acquisition, the Company recorded goodwill of $200 million primarily in the automotive experience Europe segment.

In the first six months of fiscal 2011, the Company completed three additional acquisitions for a combined purchase price, net of cash acquired, of $80 million, of which $108 million was paid in the six months ended March 31, 2011 prior to purchase price true-ups from the seller. The acquisitions in the aggregate were not material to the Company s consolidated financial statements. In connection with the acquisitions, the Company recorded goodwill of $73 million, of which $14 million was recorded in fiscal 2012.

There were no business divestitures for the six months ended March 31, 2011.

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 $848 million, $773 million and $738 million at March 31, 2012, September 30, 2011 and March 31, 2011, respectively. Amounts included within other current liabilities were $736 million,

$730 million and $747 million at March 31, 2012, September 30, 2011 and March 31, 2011, respectively.

Johnson Controls, Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2012

(unaudited)

5. Inventories

Inventories consisted of the following (in millions):

	March 31, 2012	September 30, 2011	March 31, 2011
Raw materials and supplies	$ 1,175	$ 1,136	$ 1,100
Work-in-process	457	434	332
Finished goods	863	867	941
FIFO inventories	2,495	2,437	2,373
LIFO reserve	(121)	(121)	(134)
Inventories	$ 2,374	$ 2,316	$ 2,239

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, 2011 and the six month period ended March 31, 2012 were as follows (in millions):

	March 31, 2011	Business Acquisitions	Business Divestitures	Currency Translation and Other	September 30, 2011
Building efficiency					
North America systems	$ 519	$	$	$	$ 519
North America service	676	33		1	710
Global workplace solutions	184				184
Asia	385			6	391
Other	1,108			(43)	1,065
Automotive experience					
North America	1,382			(3)	1,379
Europe	1,388	166			