

JOHNSON CONTROLS INC  
Form 10-Q  
August 01, 2013

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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 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)  
(414) 524-1200

53209  
(Zip Code)

(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 ☒ 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 ☒ No ☐

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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 ☐ 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 ☒

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 June 30, 2013
Common Stock: \$1.00 par value per share	684,159,035

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Johnson Controls, Inc.

Consolidated Statements of Financial Position

(in millions, except par value; unaudited)

	June 30, 2013	September 30, 2012	June 30, 2012
Assets			
Cash and cash equivalents	\$391	\$265	\$602
Accounts receivable - net	7,259	7,308	7,155
Inventories	2,354	2,227	2,362
Other current assets	2,665	2,873	2,447
Current assets	12,669	12,673	12,566
Property, plant and equipment - net	6,569	6,440	6,116
Goodwill	7,135	6,982	6,953
Other intangible assets - net	1,055	947	949
Investments in partially-owned affiliates	1,022	948	1,007
Other noncurrent assets	3,300	2,894	3,411
Total assets	\$31,750	\$30,884	\$31,002
Liabilities and Equity			
Short-term debt	\$312	\$323	\$925
Current portion of long-term debt	1,119	424	110
Accounts payable	6,217	6,114	6,062
Accrued compensation and benefits	1,106	1,090	1,000
Other current liabilities	3,030	2,904	2,714
Current liabilities	11,784	10,855	10,811
Long-term debt	4,593	5,321	5,624
Pension and postretirement benefits	1,205	1,248	744
Other noncurrent liabilities	1,602	1,504	1,866
Long-term liabilities	7,400	8,073	8,234
Commitments and contingencies (Note 18)			
Redeemable noncontrolling interests	205	253	214
Common stock, \$1.00 par value	697	688	688
Capital in excess of par value	2,294	2,047	2,045
Retained earnings	9,289	8,541	8,691
Treasury stock, at cost	(406	) (179	) (119
Accumulated other comprehensive income	244	458	291
Shareholders' equity attributable to Johnson Controls, Inc.	12,118	11,555	11,596
Noncontrolling interests	243	148	147

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Total equity	12,361	11,703	11,743
Total liabilities and equity	\$31,750	\$30,884	\$31,002

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Net sales				
Products and systems*	\$8,779	\$8,464	\$25,543	\$25,293
Services*	2,052	2,117	6,140	6,270
	10,831	10,581	31,683	31,563
Cost of sales				
Products and systems*	7,481	7,286	21,959	21,744
Services*	1,670	1,754	5,048	5,189
	9,151	9,040	27,007	26,933
Gross profit	1,680	1,541	4,676	4,630
Selling, general and administrative expenses	(991	) (973	) (3,134	) (3,058
Restructuring costs	(143	) (52	) (227	) (52
Net financing charges	(67	) (59	) (194	) (171
Equity income	75	70	308	269
Income before income taxes	554	527	1,429	1,618
Income tax provision (benefit)	(40	) 71	273	286
Net income	594	456	1,156	1,332
Income attributable to noncontrolling interests	23	25	83	98
Net income attributable to Johnson Controls, Inc.	\$571	\$431	\$1,073	\$1,234
Earnings per share				
Basic	\$0.83	\$0.63	\$1.57	\$1.81
Diluted	\$0.83	\$0.63	\$1.56	\$1.79

\* 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.

Johnson Controls, Inc.  
Consolidated Statements of Comprehensive Income (Loss)  
(in millions; unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$594	\$456	\$1,156	\$1,332
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(52	) (344	) (188	) (398
Realized and unrealized gains (losses) on derivatives	(3	) (1	) (11	) 28
Unrealized gains (losses) on marketable common stock	(7	) (3	) (1	) 5
Pension and postretirement plans	(3	) 9	(15	) 9
Other comprehensive loss	(65	) (339	) (215	) (356
Total comprehensive income	529	117	941	976
Comprehensive income attributable to noncontrolling interests	22	28	82	100
Comprehensive income attributable to Johnson Controls, Inc.	\$507	\$89	\$859	\$876

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Operating Activities				
Net income attributable to Johnson Controls, Inc.	\$571	\$431	\$1,073	\$1,234
Income attributable to noncontrolling interests	23	25	83	98
Net income	594	456	1,156	1,332
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	239	207	696	603
Pension and postretirement benefit cost (credit)	8	6	(5	) 19
Pension and postretirement contributions	(16	) (24	) (61	) (388
Equity in earnings of partially-owned affiliates, net of dividends received	50	(45	) (49	) (206
Deferred income taxes	(130	) 42	(9	) 85
Impairment charges	36	—	49	14
Gain on divestitures - net	(29	) —	(29	) (35
Fair value adjustment of equity investment	—	—	(82	) (12
Other	10	7	37	43
Changes in assets and liabilities, excluding acquisitions and divestitures:				
Receivables	60	16	6	(55
Inventories	(67	) (61	) (151	) (130
Other assets	7	(48	) (285	) (243
Restructuring reserves	66	39	67	24
Accounts payable and accrued liabilities	234	90	314	(29
Accrued income taxes	(28	) (66	) (105	) (257
Cash provided by operating activities	1,034	619	1,549	765
Investing Activities				
Capital expenditures	(265	) (447	) (929	) (1,433
Sale of property, plant and equipment	7	6	53	12
Acquisition of businesses, net of cash acquired	—	—	(113	) (30
Business divestitures	—	—	—	91
Changes in long-term investments	(10	) (6	) (27	) (104
Other	—	—	53	6
Cash used by investing activities	(268	) (447	) (963	) (1,458
Financing Activities				
Increase (decrease) in short-term debt - net	(642	) 403	(5	) 305
Increase in long-term debt	—	18	91	1,253
Repayment of long-term debt	(4	) (14	) (118	) (30
Stock repurchases	(175	) (9	) (225	) (42
Payment of cash dividends	(130	) (122	) (383	) (354
Proceeds from the exercise of stock options	88	7	173	28

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Cash paid to acquire a noncontrolling interest	—	(96	)	—	(115	)
Other	7	(29	)	35	(50	)
Cash provided (used) by financing activities	(856	)	158	(432	)	995
Effect of exchange rate changes on cash and cash equivalents	—	32	(28	)	43	
Increase (decrease) in cash and cash equivalents	(90	)	362	126	345	
Cash and cash equivalents at beginning of period	481	240	265	257		
Cash and cash equivalents at end of period	\$391	\$602	\$391	\$602		

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

Johnson Controls, Inc.  
Notes to Consolidated Financial Statements  
June 30, 2013  
(unaudited)

## 1. Financial Statements

In the opinion of management, the accompanying unaudited 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 omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). These 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, 2012. The results of operations for the three and nine month periods ended June 30, 2013 are not necessarily indicative of results for the Company's 2013 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.

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 periods ended June 30, 2013, September 30, 2012 and June 30, 2012, 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 to the Company's power pertaining to decisions over significant activities of the entity. As such, this VIE has been consolidated within the Company's consolidated statements of financial position. The impact of consolidation of the entity on the Company's consolidated statements of income for the three and nine month periods ended June 30, 2013 and 2012 was not material. The VIE is named as a co-obligor under a third party debt agreement in the amount of \$135 million, maturing in fiscal 2019, under 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

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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 consolidated statements of financial position for the consolidated VIEs are as follows (in millions):

	June 30, 2013	September 30, 2012	June 30, 2012
Current assets	\$242	\$199	\$212
Noncurrent assets	148	144	147
Total assets	\$390	\$343	\$359
Current liabilities	\$202	\$172	\$162
Noncurrent liabilities	23	25	25
Total liabilities	\$225	\$197	\$187

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

#### Nonconsolidated VIEs

The Company has a 40% interest in an equity method investee whereby the investee is a VIE. 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. The Company has a contractual right to purchase the remaining 60% equity interest in the investee between May 2014 and May 2016 (the "call option"). If the Company does not exercise the call option prior to its expiration in May 2016, 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 consolidated statements of financial position at June 30, 2013, September 30, 2012 and June 30, 2012 was \$58 million, \$55 million and \$53 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 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, these two 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 includes the partially-owned affiliate investment balance of \$56 million, \$52 million and \$49 million at June 30, 2013, September 30, 2012 and June 30, 2012, respectively, 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.

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## Retrospective Changes

Certain amounts as of September 30, 2012 and June 30, 2012 have been revised to conform to the current year's presentation.

Effective October 1, 2012, the Company reorganized the reportable segments within its Automotive Experience business to align with its new management reporting structure and business activities. As a result of this change, Automotive Experience is comprised of three new reportable segments for financial reporting purposes: Seating, Interiors and Electronics. Historical information has been revised to reflect the new Automotive Experience reportable segment structure. Refer to Note 6, "Goodwill and Other Intangible Assets," and Note 17, "Segment Information," of the notes to consolidated financial statements for further information.

In the fourth quarter of fiscal 2012, the Company changed its accounting policy for recognizing pension and postretirement benefit expenses. The Company's historical accounting treatment smoothed asset returns and amortized deferred actuarial gains and losses over future years. The new mark-to-market approach includes measuring the market related value of plan assets at fair value instead of utilizing a three-year smoothing approach. In addition, the Company has elected to completely eliminate the corridor approach and recognize actuarial gains and losses in the fourth quarter of each fiscal year or at the date of a remeasurement event. The Company believes this new policy is preferable and provides greater transparency to on-going operational results. The change has no impact on future pension and postretirement funding or benefits paid to participants. The change has been reported through retrospective application of the new policy to all periods presented. This change resulted in a \$14 million increase in net income attributable to Johnson Controls, Inc. (\$0.02 per diluted share) for the three months ended June 30, 2012 and a \$43 million increase in net income attributable to Johnson Controls, Inc. (\$0.06 per diluted share) for the nine months ended June 30, 2012.

In January 2013, the Company's shareholders approved a restatement of the Company's articles of incorporation that included the simplification of the par value of the Company's common stock by changing the par value from \$0.01 7/18 per share to \$1.00 per share. This change resulted in an increase to common stock and corresponding reduction in capital in excess of par value in the consolidated statements of financial position and is reported through retrospective application of the new par value for all periods presented.

## 2. New Accounting Standards

In March 2013, the FASB issued Accounting Standards Update (ASU) No. 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." ASU No. 2013-05 clarifies when companies should release the cumulative translation adjustment (CTA) into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. Additionally, ASU No. 2013-05 states that CTA should be released into net income upon an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (step acquisition). ASU No. 2013-05 will be effective prospectively for the Company for the quarter ending December 31, 2014, with early adoption permitted. The significance of this guidance for the Company is dependent on any future derecognition events involving the Company's foreign entities.

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU No. 2013-02 requires companies to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Additionally, companies are required to disclose these reclassifications by each respective line item on the statements of income. ASU No. 2013-02 is effective for the Company for the quarter ended December 31, 2013, though the Company has early adopted as permitted. The adoption of this guidance had no impact on the Company's consolidated financial condition or results of operations. Refer to Note 13, "Equity and Noncontrolling Interests," of the notes to consolidated financial statements for disclosures regarding other comprehensive income.

In July 2012, the FASB issued ASU No. 2012-02, "Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." ASU No. 2012-02 provides companies an option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived

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intangible asset is impaired. If, as a result of the qualitative assessment, it is determined that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the Company is not required to take further action. ASU No. 2012-02 is effective for the Company for impairment tests of indefinite-lived intangible assets performed in the current fiscal year. The adoption of this guidance had no impact on the Company's consolidated financial condition or results of operations.

In December 2011, the FASB issued 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 or 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 is effective for the Company for goodwill impairment tests performed in the current fiscal year. The adoption of this guidance will have no impact on the Company's consolidated financial condition or 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 was effective for the Company for the quarter ended December 31, 2012. The adoption of this guidance had no impact on the Company's consolidated financial condition or results of operations. Refer to the consolidated statements of comprehensive income (loss) and Note 13, "Equity and Noncontrolling Interests," of the notes to consolidated financial statements for disclosures regarding other comprehensive income.

### 3. Acquisitions and Divestitures

In the first nine months of fiscal 2013, the Company completed two acquisitions for a combined purchase price, net of cash acquired, of \$113 million, all of which was paid in the nine months ended June 30, 2013. 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 \$220 million. The purchase price allocations may be subsequently adjusted to reflect final valuation studies. As a result of one of the acquisitions, which increased the Company's ownership from a noncontrolling to controlling interest, the Company recorded a non-cash gain of \$82 million in Automotive Experience Seating equity income to adjust the Company's existing equity investment in the partially-owned affiliate in India to fair value.

In the third quarter of fiscal 2013, the Company completed one divestiture for a sales price of approximately \$80 million, and expects to receive the cash proceeds in the fourth quarter of fiscal 2013. The divestiture was not material to the Company's consolidated financial statements. In connection with the divestiture, the Company recorded a gain of \$29 million and reduced goodwill by \$15 million in the Automotive Experience Seating segment.

In the second quarter of fiscal 2013, the Company announced it is exploring the potential sale of its Automotive Experience Electronics business. In July 2013, the Company announced that it has signed a definitive agreement to sell its Automotive Experience Electronics' HomeLink® product line to Gentex Corporation of Zeeland, Michigan for approximately \$700 million. The transaction is expected to close on or about September 30, 2013. The Company believes that the continuing process to sell the remainder of the Automotive Experience Electronics business is progressing as planned.

In the first nine 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 nine months ended June 30, 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 \$52 million as of June 30, 2012. As a result of two of the acquisitions, each of which increased the Company's ownership from a noncontrolling to controlling interest, the Company recorded an aggregate non-cash gain of \$1

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2 million, of which \$9 million was recorded in Power Solutions equity income and \$3 million was recorded in Automotive Experience Seating equity income, to adjust the Company's existing equity investments in the partially-owned affiliates to fair value.

In the first nine 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 an increase to goodwill of \$72 million in the first nine months of fiscal 2012 related to the purchase price allocations.

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.

#### 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 primarily within accounts receivable - net and billings in excess of costs and earnings on uncompleted contracts primarily within other current liabilities in the consolidated statements of financial position. Costs and earnings in excess of billings related to these contracts were \$470 million, \$548 million and \$488 million at June 30, 2013, September 30, 2012 and June 30, 2012, respectively. Billings in excess of costs and earnings related to these contracts were \$245 million, \$365 million and \$258 million at June 30, 2013, September 30, 2012 and June 30, 2012, respectively.

#### 5. Inventories

Inventories consisted of the following (in millions):

	June 30, 2013	September 30, 2012	June 30, 2012
Raw materials and supplies	\$1,083	\$1,118	\$1,146
Work-in-process	500	417	454
Finished goods	871	806	883
FIFO inventories	2,454	2,341	2,483
LIFO reserve	(100)	(114)	(121)
Inventories	\$2,354	\$2,227	\$2,362

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## 6. Goodwill and Other Intangible Assets

Effective October 1, 2012, the Company reorganized the reportable segments within its Automotive Experience business to align with its new management reporting structure and business activities. Historical information has been revised to reflect the new Automotive Experience reportable segment structure. Refer to Note 17, "Segment Information," of the notes to consolidated financial statements for further information.

The changes in the carrying amount of goodwill in each of the Company's reportable segments for the three month period ended September 30, 2012 and the nine month period ended June 30, 2013 were as follows (in millions):

	June 30, 2012	Business Acquisitions	Business Divestitures	Currency Translation and Other	September 30, 2012
Building Efficiency					
North America Systems	\$520	\$—	\$—	\$1	\$521
North America Service	708	—	—	—	708
Global Workplace Solutions	184	—	—	3	187
Asia	391	—	—	5	396
Other	993	—	(5	) 6	994
Automotive Experience					
Seating	2,485	(45	) —	44	2,484
Interiors	393	—	—	9	402
Electronics	250	—	—	—	250
Power Solutions	1,029	—	—	11	1,040
Total	\$6,953	\$(45	) \$(5	) \$79	\$6,982
	September 30, 2012	Business Acquisitions	Business Divestitures	Currency Translation and Other	June 30, 2013
Building Efficiency					
North America Systems	\$521	\$—	\$—	\$—	\$521
North America Service	708	—	—	—	708
Global Workplace Solutions	187	75	—	(13	) 249
Asia	396	—	—	(11	) 385
Other	994	—	—	(1	) 993
Automotive Experience					
Seating	2,484	145	(15	) (45	) 2,569
Interiors	402	—	—	16	418
Electronics	250	—	—	1	251
Power Solutions	1,040	—	—	1	1,041
Total	\$6,982	\$220	\$(15	) \$(52	) \$7,135

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The Company's other intangible assets, primarily from business acquisitions, consisted of (in millions):

	June 30, 2013			September 30, 2012			June 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets									
Patented technology	\$ 168	\$ (104	) \$ 64	\$ 188	\$ (113	) \$ 75	\$ 185	\$ (108	) \$ 77
Customer relationships	548	(133	) 415	517	(117	) 400	510	(108	) 402
Miscellaneous	347	(86	) 261	204	(47	) 157	199	(43	) 156
Total amortized intangible assets	1,063	(323	) 740	909	(277	) 632	894	(259	) 635
Unamortized intangible assets									
Trademarks	315	—	315	315	—	315	314	—	314
Total intangible assets	\$ 1,378	\$ (323	) \$ 1,055	\$ 1,224	\$ (277	) \$ 947	\$ 1,208	\$ (259	) \$ 949

Amortization of other intangible assets for the three month periods ended June 30, 2013 and 2012 was \$19 million and \$17 million, respectively. Amortization of other intangible assets for the nine month periods ended June 30, 2013 and 2012 was \$57 million and \$42 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates amortization for fiscal 2014, 2015, 2016, 2017 and 2018 will be approximately \$87 million, \$83 million, \$73 million, \$66 million and \$57 million per year, respectively.

## 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 and other known factors. Based on analysis of return rates and other factors, the Company's warranty provisions are adjusted as necessary. The Company monitors its warranty activity and adjusts its reserve estimates when it is probable that future warranty costs will be different than those estimates.

The Company's product warranty liability is recorded in the consolidated statements of financial position in other current liabilities if the warranty is less than one year and in other noncurrent liabilities if the warranty extends longer than one year.

The changes in the carrying amount of the Company's total product warranty liability for the nine months ended June 30, 2013 and 2012 were as follows (in millions):

	Nine Months Ended June 30,	
	2013	2012
Balance at beginning of period	\$278	\$301
Accruals for warranties issued during the period	192	166
Accruals from acquisitions and divestitures	—	(1
Accruals related to pre-existing warranties (including changes in estimates)	(9	) (21
Settlements made (in cash or in kind) during the period	(197	) (163

Currency translation	(3	) (5	)
Balance at end of period	\$261	\$277	

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## 8. Significant Restructuring Costs

To better align its resources with its growth strategies and reduce the cost structure of its global operations to address the softness in certain underlying markets, the Company committed to a significant restructuring plan in fiscal 2012 and recorded \$297 million of restructuring costs, of which \$52 million was recorded in the third quarter and \$245 million was recorded in the fourth quarter of fiscal 2012. As a continuation of its restructuring plan announced in fiscal 2012, the Company recorded \$227 million of restructuring costs in fiscal 2013, of which \$84 million was recorded in the second quarter and \$143 million was recorded in the third quarter of fiscal 2013. The restructuring actions related to cost reduction initiatives in the Company's Automotive Experience, Building Efficiency and Power Solutions businesses and included planned workforce reductions, plant closures and asset impairments. The restructuring actions are expected to be substantially complete by the end of fiscal 2014.

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

	Employee Severance and Termination Benefits	Asset Impairments	Other	Currency Translation	Total	
Balance at September 30, 2012	\$221	\$—	\$7	\$—	\$228	
Utilized—cash	(27	) —	(3	) —	(30	)
Utilized—noncash	—	—	—	2	2	
Balance at December 31, 2012	\$194	\$—	\$4	\$2	\$200	
Additional restructuring costs	71	13	—	—	84	
Utilized—cash	(31	) —	—	—	(31	)
Utilized—noncash	—	(13	) (4	) (3	) (20	)
Balance at March 31, 2013	\$234	\$—	\$—	\$(1	) \$233	
Additional restructuring costs	106	36	1	—	143	
Utilized—cash	(36	) —	(1	) —	(37	)
Utilized—noncash	—	(36	) —	(1	) (37	)
Balance at June 30, 2013	\$304	\$—	\$—	\$(2	) \$302	

The Company's restructuring plans include workforce reductions of approximately 11,000 employees (6,800 for the Automotive Experience business, 3,300 for the Building Efficiency business and 900 for the Power Solutions business). Restructuring charges associated with employee severance and termination benefits are paid over the severance period granted to each employee or on a lump sum basis in accordance with individual severance agreements. As of June 30, 2013, approximately 4,700 of the employees have been separated from the Company pursuant to the restructuring plans. In addition, the restructuring plans include fifteen plant closures (eleven for Automotive Experience, two for Power Solutions and two for Building Efficiency). As of June 30, 2013, five of the fifteen plants have been closed.

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, lead to impairment charges and/or require additional restructuring of its operations.

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## 9. Income Taxes

In calculating the provision for income taxes, 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 changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter. For the three and nine months ended June 30, 2013, the Company's effective tax rate was (7)% and 19%, respectively. This was different than the U.S. federal statutory rate of 35% due to tax audit resolutions and other matters, significant restructuring costs, valuation allowance adjustments, an uncertain tax position charge and foreign tax rate differentials. For the three and nine months ended June 30, 2012, the Company's effective tax rate of 13% and 18% was different than the U.S. federal statutory rate of 35% primarily due to foreign tax rate differentials and changes in uncertain tax positions. The Company resolved certain Mexican tax issues in the third quarter of fiscal 2013, which resulted in a \$61 million benefit to income tax expense. Other discrete items and tax matters are detailed below.

### Valuation Allowance

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

In the second quarter of fiscal 2013, the Company performed an analysis of its worldwide deferred tax assets. As a result, and after considering tax planning initiatives and other positive and negative evidence, the Company determined that it was more likely than not that a portion of the deferred tax assets would not be utilized in Brazil and Germany. Therefore, the Company recorded \$94 million of valuation allowances as income tax expense. To the extent the Company improves its underlying operating results in these jurisdictions, these valuation allowances, or a portion thereof, could be reversed in future periods.

Given the current economic uncertainty, it is reasonably possible that over the next twelve months, valuation allowances against deferred tax assets in certain jurisdictions may result in a net increase to income tax expense of up to \$200 million.

### Uncertain Tax Positions

At September 30, 2012, the Company had gross tax effected unrecognized tax benefits of \$1,465 million, of which \$1,274 million, if recognized, would impact the effective tax rate. Total net accrued interest at September 30, 2012 was approximately \$72 million (net of tax benefit). The current year interest and penalties accrued during the nine months ended June 30, 2013 was \$11 million, and for the same period in fiscal 2012 was \$7 million. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

In the third quarter of fiscal 2013, tax audit resolutions resulted in a net \$79 million benefit to income tax expense.

As a result of foreign law changes during the second quarter of fiscal 2013, the Company increased its total reserve for uncertain tax positions, resulting in income tax expense of \$17 million.

As a result of certain recent events related to prior year tax planning initiatives, during the third quarter of fiscal 2012, the Company reduced the reserve for uncertain tax positions by \$22 million, including \$13 million of interest and penalties, which impacted the effective tax rate for the quarter.

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In the U.S., fiscal years 2004 through 2006 and 2007 through 2009 are currently under Internal Revenue Service (IRS) Appeals. Additionally, the Company is currently under exam in the following major foreign jurisdictions:

Tax Jurisdiction	Tax Years Covered
Belgium	2010 - 2012
Brazil	2004 - 2008
Canada	2007 - 2010
France	2002 - 2012
Germany	2001 - 2010
Italy	2005 - 2009, 2011
Japan	2010 - 2012
Korea	2008 - 2012
Mexico	2003 - 2004, 2008 - 2011
Poland	2008 - 2009
Slovakia	2009 - 2010

The Company expects that certain tax examinations, appellate proceedings and/or tax litigation will conclude within the next twelve months, the net impact of which is not expected to be significant to the Company's consolidated financial statements.

#### Impacts of Tax Legislation

As a result of foreign law changes during the second quarter of fiscal 2013, the Company increased its total reserve for uncertain tax positions, resulting in income tax expense of \$17 million.

The "look-through rule," under subpart F of the U.S. Internal Revenue Code, expired for the Company on September 30, 2012. The "look-through rule" had provided an exception to the U.S. taxation of certain income generated by foreign subsidiaries. The rule was extended in January 2013 retroactive to the beginning of the Company's 2013 fiscal year.

During the nine month period ended June 30, 2012, tax legislation was adopted in Japan which reduced its income tax rate by 5%. Also, tax legislation was adopted in various jurisdictions to limit the annual utilization of tax losses that are carried forward. These law changes did not have a material impact on the Company's consolidated financial statements.

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# 10. Pension and Postretirement Plans

As discussed in Note 1, “Financial Statements,” of the notes to consolidated financial statements, the Company elected to change its policy for recognizing pension and postretirement benefit expenses in the fourth quarter of fiscal 2012. This change in accounting policy has been applied retrospectively, revising all periods presented.

The components of the Company’s net periodic benefit costs associated with its defined benefit pension and postretirement plans are shown in the tables below in accordance with ASC 715, “Compensation – Retirement Benefits” (in millions):

	U.S. Pension Plans			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Service cost	\$22	\$17	\$67	\$51
Interest cost	38	37	113	112
Expected return on plan assets	(57	) (54	(173	) (160
Amortization of prior service cost	—	—	1	1
Net periodic benefit cost	\$3	\$—	\$8	\$4
	Non-U.S. Pension Plans			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Service cost	\$9	\$9	\$28	\$26
Interest cost	16	17	48	53
Expected return on plan assets	(17	) (18	(52	) (55
Amortization of prior service credit	—	—	(1	) (1
Curtailment gain	—	—	(26	) —
Net periodic benefit cost (credit)	\$8	\$8	\$(3	) \$23
	Postretirement Benefits			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Service cost	\$1	\$2	\$4	\$4
Interest cost	3	3	8	10
Expected return on plan assets	(3	) (3	(9	) (9
Amortization of prior service credit	(4	) (4	(13	) (13
Net periodic benefit credit	\$(3	) \$(2	\$(10	) \$(8

The curtailment gain in the nine months ended June 30, 2013 was the result of a lost contract in the Building Efficiency Global Workplace Solutions segment.

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## 11. Debt and Financing Arrangements

During the quarter ended December 31, 2012, a \$35 million and a \$100 million committed revolving credit facility expired. The Company entered into a new \$35 million committed revolving credit facility scheduled to expire in November 2013 and a new \$100 million committed revolving credit facility scheduled to expire in December 2013. As of June 30, 2013, there were no draws on either facility.

During the quarter ended December 31, 2012, the Company entered into a five-year, 70 million euro, floating rate credit facility scheduled to mature in fiscal 2018. The Company drew on the credit facility during the quarter ended December 31, 2012. Proceeds from the facility were used for general corporate purposes.

During the quarter ended December 31, 2012, the Company retired \$100 million in principal amount, plus accrued interest, of its 5.8% fixed rate notes that matured November 2012. The Company used cash to fund the payment.

During the quarter ended March 31, 2012, the Company remarketed \$46 million aggregate principal amount of 11.5% subordinated notes due in fiscal 2042, on behalf of holders of Corporate Units and holders of separate notes, by issuing \$46 million aggregate principal amount of 2.355% senior notes due on March 31, 2017.

During the quarter ended December 31, 2011, the Company issued \$400 million aggregate principal amount of 2.6% senior unsecured fixed rate notes due in fiscal 2017, \$450 million aggregate principal amount of 3.75% senior unsecured fixed rate notes due in fiscal 2022 and \$250 million aggregate principal amount of 5.25% senior unsecured fixed rate notes due in fiscal 2042. Aggregate net proceeds of \$1.1 billion from the issuances were used for general corporate purposes, including the retirement of short-term debt and contributions to the Company's pension and postretirement plans.

During the quarter ended December 31, 2011, the Company entered into a five-year, 75 million euro, floating rate credit facility scheduled to mature in fiscal 2017. The Company drew on the credit facility during the quarter ended March 31, 2012. Proceeds from the facility were used for general corporate purposes.

## Net Financing Charges

The Company's net financing charges line item in the consolidated statements of income for the three and nine month periods ended June 30, 2013 and 2012 contained the following components (in millions):

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Interest expense, net of capitalized interest costs	\$67	\$60	\$196	\$171
Banking fees and bond cost amortization	5	2	15	16
Interest income	(5)	(2)	(12)	(9)
Net foreign exchange results for financing activities	—	(1)	(5)	(7)
Net financing charges	\$67	\$59	\$194	\$171



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## 12. Earnings Per Share

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income attributable to Johnson Controls, Inc. by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is calculated by dividing net income attributable to Johnson Controls, Inc. by the weighted average number of common shares and common equivalent shares outstanding during the reporting period that are calculated using the treasury stock method for stock options and unvested restricted stock. The treasury stock method assumes that the Company uses the proceeds from the exercise of stock option 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 capital in excess of par value when the award generates a tax deduction. If there would be a shortfall resulting in a charge to capital in excess of par value, such an amount would be a reduction of the proceeds. For unvested restricted stock, assumed proceeds under the treasury stock method would include unamortized compensation cost and windfall tax benefits or shortfalls.

The Company's outstanding Equity Units due 2042 are reflected in diluted earnings per share using the "if-converted" method. Under this method, if dilutive, the common stock is assumed issued as of the beginning of the reporting period and included in calculating diluted earnings per share. In addition, if dilutive, interest expense, net of tax, related to the outstanding Equity Units is added back to the numerator in calculating diluted earnings per share.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Income Available to Common Shareholders				
Basic income available to common shareholders	\$571	\$431	\$1,073	\$1,234
Interest expense, net of tax	—	—	—	1
Diluted income available to common shareholders	\$571	\$431	\$1,073	\$1,235
Weighted Average Shares Outstanding				
Basic weighted average shares outstanding	683.9	683.4	683.7	681.1
Effect of dilutive securities:				
Stock options and unvested restricted stock	6.2	5.3	5.0	5.7
Equity units	—	0.1	—	2.5
Diluted weighted average shares outstanding	690.1	688.8	688.7	689.3
Antidilutive Securities				
Options to purchase common shares	—	1.2	1.1	1.1

During the three months ended June 30, 2013 and 2012, the Company declared a dividend of \$0.19 and \$0.18, respectively, per common share. During the nine months ended June 30, 2013 and 2012, the Company declared three quarterly dividends totaling \$0.57 and \$0.54, respectively, per common share. With the exception of the quarterly dividend declared and paid in the three months ended December 31, 2012, the Company paid all dividends in the month subsequent to the end of each fiscal quarter.



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### 13. Equity and Noncontrolling Interests

The following schedules present changes in consolidated equity attributable to Johnson Controls, Inc. and noncontrolling interests (in millions):

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Equity Attributable to Johnson Controls, Inc.	Equity Attributable to Noncontrolling Interests	Total Equity	Equity Attributable to Johnson Controls, Inc.	Equity Attributable to Noncontrolling Interests	Total Equity
Beginning balance, March 31	\$11,798	\$ 234	\$ 12,032	\$11,595	\$ 150	\$ 11,745
Total comprehensive income:						
Net income	571	21	592	431	20	451
Foreign currency translation adjustments	(51)	(1)	(52)	(347)	3	(344)
Realized and unrealized losses on derivatives	(3)	—	(3)	(1)	—	(1)
Unrealized losses on marketable common stock	(7)	—	(7)	(3)	—	(3)
Pension and postretirement plans	(3)	—	(3)	9	—	9
Other comprehensive income (loss)	(64)	(1)	(65)	(342)	3	(339)
Comprehensive income	507	20	527	89	23	112
Other changes in equity:						
Cash dividends—common stock	(130)	—	(130)	(123)	—	(123)
Dividends attributable to noncontrolling interests	—	(7)	(7)	—	(26)	(26)
Redemption value adjustment attributable to redeemable noncontrolling interests	2	—	2	(13)	—	(13)
Repurchases of common stock	(175)	—	(175)	(9)	—	(9)
Change in noncontrolling interest share	—	(4)	(4)	—	—	—
Other, including options exercised	116	—	116	57	—	57
Ending balance, June 30	\$12,118	\$ 243	\$ 12,361	\$11,596	\$ 147	\$ 11,743

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	Nine Months Ended June 30, 2013			Nine Months Ended June 30, 2012		
	Equity Attributable to Johnson Controls, Inc.	Equity Attributable to Noncontrolling Interests	Total Equity	Equity Attributable to Johnson Controls, Inc.	Equity Attributable to Noncontrolling Interests	Total Equity
Beginning balance, September 30	\$11,555	\$ 148	\$ 11,703	\$11,042	\$ 138	\$ 11,180
Total comprehensive income:						
Net income	1,073	49	1,122	1,234	48	1,282
Foreign currency translation adjustments	(187)	(1)	(188)	(400)	2	(398)
Realized and unrealized gains (losses) on derivatives	(11)	—	(11)	28	—	28
Unrealized gains (losses) on marketable common stock	(1)	—	(1)	5	—	5
Pension and postretirement plans	(15)	—	(15)	9	—	9
Other comprehensive income (loss)	(214)	(1)	(215)	(358)	2	(356)
Comprehensive income	859	48	907	876	50	926
Other changes in equity:						
Cash dividends—common stock	(390)	—	(390)	(369)	—	(369)
Dividends attributable to noncontrolling interests	—	(19)	(19)	—	(41)	(41)
Redemption value adjustment attributable to redeemable noncontrolling interests	65	—	65	(12)	—	(12)
Repurchases of common stock	(225)	—	(225)	(42)	—	(42)
Change in noncontrolling interest share	—	66	66	—	—	—
Other, including options exercised	254	—	254	101	—	101
Ending balance, June 30	\$12,118	\$ 243	\$ 12,361	\$11,596	\$ 147	\$ 11,743

The Company consolidates certain subsidiaries in which the noncontrolling interest party has within their control the right to require the Company to redeem all or a portion of its interest in the subsidiary. The redeemable noncontrolling interests are reported at their estimated redemption value. Any adjustment to the redemption value impacts retained earnings but does not impact net income. Redeemable noncontrolling interests which are redeemable only upon future events, the occurrence of which is not currently probable, are recorded at carrying value.

The following schedules present changes in the redeemable noncontrolling interests (in millions):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012
Beginning balance, March 31	\$205	\$318
Net income	2	5

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Dividends	—	(4	)
Redemption value adjustment	(2	) 13	
Change in noncontrolling interest share	—	(118	)
Ending balance, June 30	\$205	\$214	

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	Nine Months Ended June 30, 2013	Nine Months Ended June 30, 2012
Beginning balance, September 30	\$253	\$260
Net income	34	50
Dividends	(6	) (13
Redemption value adjustment	(65	) 12
Change in noncontrolling interest share	(11	) (95
Ending balance, June 30	\$205	\$214

The following schedules present changes in accumulated other comprehensive income (AOCI) attributable to Johnson Controls, Inc. (in millions, net of tax):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012
Foreign currency translation adjustments		
Balance at beginning of period	\$277	\$581
Aggregate adjustment for the period (net of tax effect of \$9 and \$24)	(51	) (347
Balance at end of period	226	234
Realized and unrealized gains (losses) on derivatives		
Balance at beginning of period	4	2
Current period changes in fair value (net of tax effect of \$4 and \$4)	(7	) (7
Reclassification to income (net of tax effect of \$2 and \$4) *	4	6
Balance at end of period	1	1
Unrealized losses on marketable common stock		
Balance at beginning of period	11	14
Current period changes in fair value (net of tax effect of \$0)	(7	) (3
Balance at end of period	4	11
Pension and postretirement plans		
Balance at beginning of period	16	36
Reclassification to income (net of tax effect of \$1 and \$1) ***	(3	) (3
Other changes (net of tax effect of \$0)	—	12
Balance at end of period	13	45
Accumulated other comprehensive income, end of period	\$244	\$291

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	Nine Months Ended June 30, 2013	Nine Months Ended June 30, 2012
Foreign currency translation adjustments		
Balance at beginning of period	\$413	\$634
Aggregate adjustment for the period (net of tax effect of \$12 and \$14)	(187	) (400
Balance at end of period	226	234
Realized and unrealized gains (losses) on derivatives		
Balance at beginning of period	12	(27
Current period changes in fair value (net of tax effect of \$5 and \$5)	(8	) 7
Reclassification to income (net of tax effect of \$2 and \$14) *	(3	) 21
Balance at end of period	1	1
Unrealized gains (losses) on marketable common stock		
Balance at beginning of period	5	6
Current period changes in fair value (net of tax effect of \$0)	(1	) (9
Reclassification to income (net of tax effect of \$0) **	—	14
Balance at end of period	4	11
Pension and postretirement plans		
Balance at beginning of period	28	36
Reclassification to income (net of tax effect of \$7 and \$5) ***	(15	) (8
Other changes (net of tax effect of \$0)	—	17
Balance at end of period	13	45
Accumulated other comprehensive income, end of period	\$244	\$291

\* Refer to Note 14, "Derivative Instruments and Hedging Activities," of the notes to consolidated financial statements for disclosure of the line items on the consolidated statements of income affected by reclassifications from AOCI into income related to derivatives.

\*\* Refer to Note 15, "Fair Value Measurements," of the notes to consolidated financial statements for disclosure of the line item on the consolidated statements of income affected by reclassifications from AOCI into income related to marketable common stock.

\*\*\* Refer to Note 10, "Pension and Postretirement Plans," of the notes to consolidated financial statements for disclosure of the components of the Company's net periodic benefit costs associated with its defined benefit pension and postretirement plans. For the nine months ended June 30, 2013, the amount reclassified from AOCI into income for pension and postretirement plans was split approximately evenly between cost of sales and selling, general and administrative expenses on the consolidated statement of income. For the other periods presented, the amounts reclassified from AOCI into income were primarily recorded in cost of sales.



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#### 14. Derivative Instruments and Hedging Activities

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities, stock-based compensation liabilities 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. A description of each type of derivative utilized by the Company to manage risk is included in the following paragraphs. In addition, refer to Note 15, "Fair Value Measurements," of the notes to consolidated financial statements for information related to the fair value measurements and valuation methods utilized by the Company for each derivative type.

The Company has global operations and participates in the foreign exchange markets to minimize its risk of loss from fluctuations in foreign currency exchange rates. The Company primarily uses foreign currency exchange contracts to hedge certain of its foreign exchange rate exposures. The Company hedges 70% to 90% of the nominal amount of each of its known foreign exchange transactional exposures.

The Company has entered into cross-currency interest rate swaps to selectively hedge portions of its net investment in Japan. The currency effects of the cross-currency interest rate swaps are reflected in the accumulated other comprehensive income (AOCI) account within shareholders' equity attributable to Johnson Controls, Inc. where they offset gains and losses recorded on the Company's net investment in Japan. At June 30, 2013, the Company had five cross-currency interest rate swaps outstanding totaling 25 billion yen. At September 30, 2012 and June 30, 2012, the Company had three cross-currency interest rate swaps outstanding totaling 20 billion yen.

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 cash flow hedges, the effective portion of the hedge gains or losses due to changes in fair value are initially recorded as a component of AOCI and are subsequently reclassified into earnings when the hedged transactions, typically sales or costs related to sales, occur and affect earnings. Any ineffective portion of the hedge is reflected in the consolidated statements of income. The maturities of the commodity contracts coincide with the expected purchase of the commodities. The Company had the following outstanding commodity hedge contracts that hedge forecasted purchases:

Commodity	Units	Volume Outstanding as of		
		June 30, 2013	September 30, 2012	June 30, 2012
Copper	Pounds	18,440,000	13,135,000	12,733,000
Lead	Metric Tons	23,700	21,200	23,200
Aluminum	Metric Tons	3,672	2,868	1,071
Tin	Metric Tons	552	1,344	—
Iron Scrap	Metric Tons	2,099	—	—

The Company selectively uses equity swaps to reduce market risk associated with certain of its stock-based compensation plans, such as its deferred compensation plans. 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. As of June 30, 2013, September 30, 2012 and June 30, 2012, the Company had hedged approximately 4.4 million, 4.5 million and 4.3 million shares of its common stock, respectively.

The Company selectively uses interest rate swaps to reduce market risk associated with changes in interest rates for its fixed-rate bonds. As fair value hedges, the interest rate swaps and related debt balances are valued under a market approach using publicized swap curves. Changes in the fair value of the swap and hedged portion of the debt are recorded in the consolidated statements of income. In the second quarter of fiscal 2011, the Company entered into a fixed to floating interest rate swap totaling \$100 million to hedge the coupon of its 5.8% notes maturing November 15, 2012, two fixed to floating interest rate swaps totaling \$300 million to hedge the coupon of its 4.875% notes maturing September 15, 2013, and five fixed to floating interest rate swaps totaling \$450 million to hedge the coupon of its 1.75% notes maturing March 1, 2014. The \$100 million fixed to floating interest rate swap matured in November 2012. There were seven interest rate swaps outstanding as of June 30, 2013, and eight interest rate swaps outstanding as of September 30, 2012 and June 30, 2012.

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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 International (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 notes. 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. In January 2006, in connection with the Company's debt refinancing, the three forward treasury lock agreements were terminated.

The following table presents the location and fair values of derivative instruments and hedging activities included in the Company's consolidated statements of financial position (in millions):

	Derivatives and Hedging Activities Designated as Hedging Instruments under ASC 815			Derivatives and Hedging Activities Not Designated as Hedging Instruments under ASC 815		
	June 30, 2013	September 30, 2012	June 30, 2012	June 30, 2013	September 30, 2012	June 30, 2012
Other current assets						
Foreign currency exchange derivatives	\$ 8	\$ 14	\$ 12	\$ 3	\$ 8	\$ 8
Commodity derivatives	—	11	1	—	—	—
Interest rate swaps	3	2	—	—	—	—
Cross-currency interest rate swaps	7	1	8	—	—	—
Other noncurrent assets						
Interest rate swaps	—	6	7	—	—	—
Cross-currency interest rate swaps	2	—	—	—	—	—
Equity swap	—	—	—	158	123	118
Total assets	\$ 20	\$ 34	\$ 28	\$ 161	\$ 131	\$ 126
Other current liabilities						
Foreign currency exchange derivatives	\$ 8	\$ 17	\$ 18	\$ —	\$ 9	\$ 8
Commodity derivatives	7	—	5	—	—	—
Current portion of long-term debt						
Fixed rate debt swapped to floating	753	401	100	—	—	—
Long-term debt						
Fixed rate debt swapped to floating	—	456	757	—	—	—
Other noncurrent liabilities						
Commodity derivatives	1	—	—	—	—	—
Total liabilities	\$ 769	\$ 874	\$ 880	\$ —	\$ 9	\$ 8

The following tables present the location and amount of the effective portion of gains and losses gross of tax on derivative instruments and related hedge items reclassified from AOCI into the Company's consolidated statements of income for the three and nine months ended June 30, 2013 and 2012 and amounts recorded in AOCI net of tax in the consolidated statements of financial position (in millions):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Location of Gain (Loss) Reclassified from AOCI into Income	Amount of Gain (Loss) Reclassified from AOCI into Income			
		Three Months Ended June 30,		Nine Months Ended June 30,	
		2013	2012	2013	2012
Foreign currency exchange derivatives	Cost of sales	\$—	\$(6 )	\$1	\$(16 )
Commodity derivatives	Cost of sales	(6 )	(4 )	3	(20 )
Forward treasury locks	Net financing charges	—	—	1	1
Total		\$(6 )	\$(10 )	\$5	\$(35 )

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Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivative		
	June 30, 2013	September 30, 2012	June 30, 2012
Foreign currency exchange derivatives	\$—	\$(3	) \$(3
Commodity derivatives	(6	) 7	(4
Forward treasury locks	7	8	8
Total	\$1	\$12	\$1

Derivatives in ASC 815 Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative			
		Three Months Ended June 30,		Nine Months Ended June 30,	
		2013	2012	2013	2012
Interest rate swaps	Net financing charges	\$(1	) \$(2	) \$(4	) \$(8
Fixed rate debt swapped to floating	Net financing charges	1	3	4	9
Total		\$—	\$1	\$—	\$1

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative			
		Three Months Ended June 30,		Nine Months Ended June 30,	
		2013	2012	2013	2012
Foreign currency exchange derivatives	Cost of sales	\$(3	) \$(1	) \$(6	) \$22
Foreign currency exchange derivatives	Net financing charges	7	21	17	(9
Foreign currency exchange derivatives	Income tax provision (benefit)	—	15	(4	) 15
Equity swap	Selling, general and administrative	4	(20	) 40	6
Total		\$8	\$15	\$47	\$34

The amount of gains recognized in cumulative translation adjustment (CTA) within AOCI on the effective portion of outstanding net investment hedges was \$6 million, \$1 million, and \$5 million at June 30, 2013, September 30, 2012 and June 30, 2012, respectively. For the three and nine months ended June 30, 2013 and 2012, no gains or losses were reclassified from CTA into income for the Company's outstanding net investment hedges, and no gains or losses were recognized in income for the ineffective portion of cash flow hedges.

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## 15. Fair Value Measurements

ASC 820, "Fair Value Measurement," defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

ASC 820 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

### Recurring Fair Value Measurements

The following tables present the Company's fair value hierarchy for those assets and liabilities measured at fair value as of June 30, 2013, September 30, 2012 and June 30, 2012 (in millions):

	Fair Value Measurements Using:			
	Total as of June 30, 2013	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$11	\$—	\$11	\$—
Interest rate swaps	3	—	3	—
Cross-currency interest rate swap	7	—	7	—
Other noncurrent assets				
Investments in marketable common stock	26	26	—	—
Cross-currency interest rate swap	2	—	2	—
Equity swap	158	158	—	—
Total assets	\$207	\$184	\$23	\$—
Other current liabilities				
Foreign currency exchange derivatives	\$8	\$—	\$8	\$—
Commodity derivatives	7	—	7	—
Current portion of long-term debt				
Fixed rate debt swapped to floating	753	—	753	—
Other noncurrent liabilities				
Commodity derivatives	1	—	1	—
Total liabilities	\$769	\$—	\$769	\$—



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	Fair Value Measurements Using:			
	Total as of September 30, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$22	\$—	\$22	\$—
Commodity derivatives	11	—	11	—
Interest rate swaps	2	—	2	—
Cross-currency interest rate swaps	1	—	1	—
Other noncurrent assets				
Interest rate swaps	6	—	6	—
Investments in marketable common stock	32	32	—	—
Equity swap	123	123	—	—
Total assets	\$197	\$155	\$42	\$—
Other current liabilities				
Foreign currency exchange derivatives	\$26	\$—	\$26	\$—
Current portion of long-term debt				
Fixed rate debt swapped to floating	401	—	401	—
Long-term debt				
Fixed rate debt swapped to floating	456	—	456	—
Total liabilities	\$883	\$—	\$883	\$—

	Fair Value Measurements Using:			
	Total as of June 30, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$20	\$—	\$20	\$—
Commodity derivatives	1	—	1	—
Cross-currency interest rate swaps	8	—	8	—
Other noncurrent assets				
Interest rate swaps	7	—	7	—
Investments in marketable common stock	34	34	—	—
Equity swap	118	118	—	—
Total assets	\$188	\$152	\$36	\$—
Other current liabilities				
Foreign currency exchange derivatives	\$26	\$—	\$26	\$—
Commodity derivatives	5	—	5	—
Current portion of long-term debt				
Fixed rate debt swapped to floating	100	—	100	—
Long-term debt				
Fixed rate debt swapped to floating	757	—	757	—

Total liabilities	\$888	\$—	\$888
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