

JOHNSON CONTROLS INC

Form 10-Q

August 03, 2011

**Table of Contents**

**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, 2011**

**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)*

**53209**

*(Zip Code)*

**(414) 524-1200**

*(Registrant's telephone number, including area code)*

**Not Applicable**

*(Former name, former address and former fiscal year, if changed since last report)*

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

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, 2011

Common Stock: \$0.01 7/18 par value  
per share

679,738,648

---

**JOHNSON CONTROLS, INC.**  
**FORM 10-Q**  
**Report Index**

	Page
<b><u>Part I. Financial Information</u></b>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Statements of Financial Position at June 30, 2011, September 30, 2010 and June 30, 2010</u>	3
<u>Consolidated Statements of Income for the Three and Nine Month Periods Ended June 30, 2011 and 2010</u>	4
<u>Consolidated Statements of Cash Flows for the Three and Nine Month Periods Ended June 30, 2011 and 2010</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Report of Independent Registered Public Accounting Firm</u>	36
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	52
<u>Item 4. Controls and Procedures</u>	52
<b><u>Part II. Other Information</u></b>	
<u>Item 1. Legal Proceedings</u>	53
<u>Item 1A. Risk Factors</u>	53
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	54
<u>Item 6. Exhibits</u>	55
<b><u>Signatures</u></b>	56
<u>EX-15</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

**Table of Contents****PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS****Johnson Controls, Inc.**  
**Condensed Consolidated Statements of Financial Position**  
(in millions; unaudited)

	June 30, 2011	September 30, 2010	June 30, 2010
<b>Assets</b>			
Cash and cash equivalents	\$ 335	\$ 560	\$ 908
Accounts receivable net	7,094	6,095	5,452
Inventories	2,451	1,786	1,644
Other current assets	2,678	2,211	2,114
Current assets	12,558	10,652	10,118
Property, plant and equipment net	5,185	4,096	3,706
Goodwill	7,093	6,501	6,217
Other intangible assets net	822	741	695
Investments in partially-owned affiliates	952	728	766
Other noncurrent assets	3,259	3,025	2,584
Total assets	\$ 29,869	\$ 25,743	\$ 24,086
<b>Liabilities and Equity</b>			
Short-term debt	\$ 592	\$ 75	\$ 73
Current portion of long-term debt	65	662	654
Accounts payable	6,104	5,426	4,874
Accrued compensation and benefits	1,329	1,122	1,054
Other current liabilities	3,064	2,625	2,377
Current liabilities	11,154	9,910	9,032
Long-term debt	4,519	2,652	2,638
Postretirement health and other benefits	228	235	206
Other noncurrent liabilities	2,260	2,573	2,565
Long-term liabilities	7,007	5,460	5,409
Commitments and contingencies (Note 18)			
Redeemable noncontrolling interests	229	196	163

Edgar Filing: JOHNSON CONTROLS INC - Form 10-Q

Shareholders' equity attributable to Johnson Controls, Inc.	11,361	10,071	9,395
Noncontrolling interests	118	106	87
Total equity	11,479	10,177	9,482
Total liabilities and equity	\$ 29,869	\$ 25,743	\$ 24,086

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

3

---

**Table of Contents****Johnson Controls, Inc.****Consolidated Statements of Income**

(in millions, except per share data; unaudited)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net sales				
Products and systems*	\$ 8,202	\$ 6,798	\$ 23,904	\$ 20,116
Services*	2,162	1,742	6,141	5,149
	10,364	8,540	30,045	25,265
Cost of sales				
Products and systems*	6,954	5,783	20,455	17,254
Services*	1,860	1,418	5,152	4,213
	8,814	7,201	25,607	21,467
Gross profit	1,550	1,339	4,438	3,798
Selling, general and administrative expenses	(1,094)	(895)	(3,055)	(2,625)
Net financing charges	(43)	(39)	(124)	(117)
Equity income	56	52	183	156
Income before income taxes	469	457	1,442	1,212
Provision for income taxes	89	31	274	123
Net income	380	426	1,168	1,089
Income attributable to noncontrolling interests	23	8	82	47
Net income attributable to Johnson Controls, Inc.	\$ 357	\$ 418	\$ 1,086	\$ 1,042
Earnings per share				
Basic	\$ 0.53	\$ 0.62	\$ 1.60	\$ 1.55
Diluted	\$ 0.52	\$ 0.61	\$ 1.58	\$ 1.53

\* Products and systems consist of automotive experience and power solutions products and systems and building efficiency installed systems. Services are building efficiency technical and global workplace solutions. The accompanying notes are an integral part of the financial statements.

**Table of Contents****Johnson Controls, Inc.****Consolidated Statements of Cash Flows**

(in millions; unaudited)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
<b>Operating Activities</b>				
Net income attributable to Johnson Controls, Inc.	\$ 357	\$ 418	\$ 1,086	\$ 1,042
Income attributable to noncontrolling interests	23	8	82	47
Net income	380	426	1,168	1,089
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation	180	158	511	492
Amortization of intangibles	13	10	36	32
Equity in earnings of partially-owned affiliates, net of dividends received	(7)	6	(80)	(38)
Deferred income taxes	(95)	(51)	(95)	(95)
Impairment charges		11		30
Equity-based compensation	13	8	49	37
Other	23	9	44	42
Changes in working capital, excluding acquisitions:				
Accounts receivable	99	(182)	(416)	(218)
Inventories	(133)	(111)	(432)	(208)
Other current assets	(35)	(58)	(154)	(169)
Restructuring reserves	(14)	(32)	(83)	(156)
Accounts payable and accrued liabilities	(200)	219	(75)	595
Accrued income taxes	169	14	88	15
Cash provided by operating activities	393	427	561	1,448
<b>Investing Activities</b>				
Capital expenditures	(365)	(215)	(900)	(526)
Sale of property, plant and equipment	18	10	36	34
Acquisition of businesses, net of cash acquired	(458)	(17)	(1,087)	(32)
Recoverable customer engineering expenditures	(33)	(18)	(72)	(56)
Changes in long-term investments	(78)	(45)	(128)	(75)
Cash used by investing activities	(916)	(285)	(2,151)	(655)
<b>Financing Activities</b>				
Increase (decrease) in short-term debt net	486	10	499	(569)
Increase in long-term debt	94	6	1,829	519
Repayment of long-term debt	(5)	(21)	(764)	(524)



Edgar Filing: JOHNSON CONTROLS INC - Form 10-Q

Payment of cash dividends	(108)	(87)	(304)	(251)
Proceeds from the exercise of stock options	10	12	95	44
Settlement of interest rate swaps			24	
Other	(14)	(3)	(22)	(20)
Cash provided (used) by financing activities	463	(83)	1,357	(801)
Effect of exchange rate changes on cash and cash equivalents	(6)	79	8	155
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(66)</b>	<b>138</b>	<b>(225)</b>	<b>147</b>
Cash and cash equivalents at beginning of period	401	770	560	761
Cash and cash equivalents at end of period	\$ 335	\$ 908	\$ 335	\$ 908

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

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(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, 2010. The results of operations for the three and nine month periods ended June 30, 2011 are not necessarily indicative of results for the Company's 2011 fiscal year because of seasonal and other factors.

Certain amounts as of June 30, 2010 have been revised to conform to the current year's presentation. Certain amounts for the three and nine month periods ended June 30, 2010 included within the financing activities section of the consolidated statement of cash flows have been reclassified for comparative purposes. Also, effective October 1, 2010, the building efficiency business unit reorganized its management reporting structure to reflect its current business activities. Historical information has been revised to reflect the new building efficiency reportable segment structure. Refer to Note 17, Segment Information, to the financial statements for further information.

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.

On October 1, 2010, the Company adopted Accounting Standards Update (ASU) No. 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU No. 2009-17 amends the consolidation guidance applicable to variable interest entities (VIEs) and requires additional disclosures concerning an enterprise's continuing involvement with VIEs. 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 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. The Company evaluated the impact of this guidance and determined that the adoption did not result in consolidation of additional entities or deconsolidation of existing VIEs. As such, the adoption of this guidance had no impact on the Company's consolidated financial condition and results of operations, and appropriate disclosures have been included herein.

*Consolidated VIEs*

Based upon the criteria set forth in ASC 810, the Company has determined that for the reporting periods ended June 30, 2011, September 30, 2010 and June 30, 2010 it was the primary beneficiary in two VIE s in which it holds less than 50% ownership 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. 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. These two VIE s manufacture products in North America for the automotive industry. 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 VIE s are as follows (in millions):

6

---

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

	June 30, 2011	September 30, 2010	June 30, 2010
Current assets	\$ 179	\$ 215	\$ 187
Noncurrent assets	55	69	72
<b>Total assets</b>	<b>\$ 234</b>	<b>\$ 284</b>	<b>\$ 259</b>
Current liabilities	\$ 132	\$ 174	\$ 165
Noncurrent liabilities			
<b>Total liabilities</b>	<b>\$ 132</b>	<b>\$ 174</b>	<b>\$ 165</b>

*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 and 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 statement of financial position at June 30, 2011 was \$48 million, 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.

Based upon the criteria set forth in ASC 810, the Company has determined that it holds a variable interest in an equity method investee that was considered thinly capitalized at the time of its initial investment. The entity has been primarily financed with third party debt. During the three month period ended March 31, 2011, the owners of the remaining interest exercised their option to put their interest to the Company. The Company has twelve months from the date the notice was received to set the date of the put closing or to secure a third party buyer. The value of the put will be at a price that approximates fair value. The Company is not the primary beneficiary as the Company cannot make key operating decisions considered to be most significant to the VIE prior to the put closing. Therefore, the entity 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 statement of financial position at June 30, 2011 was \$43 million, which represents the Company's maximum exposure to loss. The investment balance at

September 30, 2010 and June 30, 2010 was \$41 million. Current liabilities due to the VIE are immaterial and represent normal course of business trade payables for all presented periods. Additionally, the Company consumes a significant amount of the investee's manufacturing output.

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

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

**2. New Accounting Standards**

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 shareholder's equity instead must be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Also, reclassification adjustments for items that are reclassified from other comprehensive income to net income must be presented on the face of the financial 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 will be effective for the Company in the second quarter of fiscal 2012 (January 1, 2012). The Company has assessed the updated guidance and expects adoption to have no impact on the Company's consolidated financial condition and results of operations. Refer to Note 15, Fair Value Measurements, to the financial statements for disclosures surrounding the Company's fair value measurements.

In December 2009, the FASB issued ASU No. 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU No. 2009-17 changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. This statement was effective for the Company beginning in the first quarter of fiscal 2011 (October 1, 2010). The adoption of this guidance had no impact on the Company's consolidated financial condition and results of operations. Refer to Note 1, Financial Statements, to the financial statements for further discussion.

In October 2009, the FASB issued ASU No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements—A Consensus of the FASB Emerging Issues Task Force. ASU No. 2009-13 provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This guidance eliminates the use of the residual method allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. The amendments in this ASU also expand the disclosures related to a vendor's multiple-deliverable revenue arrangements. The Company adopted ASU No. 2009-13 on October 1, 2010. The adoption of this guidance did not have a significant impact on the Company's consolidated financial condition and results of operations, and appropriate disclosures have been included herein.

The Company's building efficiency business sells certain heating, ventilating and air conditioning (HVAC) and refrigeration products and services in bundled arrangements, where multiple products and/or services are involved. Significant deliverables within these arrangements include equipment, commissioning, service labor and extended warranties. In order to estimate relative selling price, market data and transfer price studies are utilized. Approximately four to twelve months separate the timing of the first deliverable until the last piece of equipment is delivered, and there may be extended warranty arrangements with duration of one to five years commencing upon the end of the standard warranty period. As each deliverable had a determinable relative selling price and the residual method was not previously utilized by the Company, there were no changes in units of accounting, the allocation process, or the pattern and timing of revenue recognition upon adoption of ASU No. 2009-13. Furthermore, adoption of this ASU is not expected to have a material effect on the consolidated financial condition or results of operations in subsequent periods.

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

**3. Acquisition of Businesses**

During the third quarter of fiscal 2011, the Company completed its acquisition of Keiper/Recaro Automotive, a leader in recliner system technology with engineering and manufacturing expertise in metals and mechanisms for automobile seats, based in Kaiserslautern, Germany. The total purchase price, net of cash acquired, was approximately \$450 million, all of which was paid during the three months ended June 30, 2011. In connection with the Keiper/Recaro Automotive acquisition, the Company recorded goodwill of \$189 million in the automotive experience Europe segment. The purchase price allocation may be subsequently adjusted to reflect final valuation studies.

The Keiper/Recaro Automotive acquisition strengthens the Company's metal components and mechanisms business. Keiper/Recaro's expertise includes the complete engineering process and technologies used to produce metal seat components, structures and mechanisms. The product range encompasses mechanisms which adjust the seat's length and height, recliners that adjust the backrest position of vehicle seats, and rear seat latches. The acquisition strengthens the Company's competitive position in key seating components with expanded opportunities to develop new differentiating products and technologies. Increasing vertical integration and enhancing the Company's seating components technologies are expected to accelerate future growth of the Company's automotive seating 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, all of which was paid during the nine months ended June 30, 2011. In connection with the Hammerstein acquisition, the Company recorded goodwill of \$217 million in the automotive experience Europe segment. The purchase price allocation may be subsequently adjusted to reflect final valuation studies.

The Hammerstein acquisition enables the Company's automotive experience business to enhance its expertise in metal seat structures and expand into premium vehicle segments. Hammerstein's strong product portfolio and customer base in the premium segment complements the Company's product portfolio, which is primarily comprised of vehicle segments with high production volumes. Hammerstein's product capabilities include front seat structures, seat tracks and height adjusters, multi-way adjusters, power gear boxes, as well as special applications such as steering column adjusters. Hammerstein's expertise includes the complete product development process, from design and engineering to the manufacture of individual components and complete seat systems.

In the first nine months of fiscal 2011, the Company completed three additional acquisitions for a combined purchase price, net of cash acquired, of \$108 million, all of which was paid in the nine months ended June 30, 2011. 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 \$30 million. The purchase price allocations may be subsequently adjusted to reflect final valuation studies.

In the first nine months of fiscal 2010, the Company completed three acquisitions for a combined purchase price of \$35 million, of which \$32 million was paid as of June 30, 2010. 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 \$5 million.

**4. Percentage-of-Completion Contracts**



The building efficiency business records certain long-term contracts under the percentage-of-completion method of accounting. Under this method, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. The Company records costs and earnings in excess of billings on uncompleted contracts within accounts receivable net and billings in excess of costs and earnings on uncompleted contracts within other current liabilities in the condensed consolidated statements of financial position. Amounts included within accounts receivable net related to these contracts were \$798 million, \$683 million and \$614 million at June 30, 2011, September 30, 2010 and June 30, 2010, respectively. Amounts

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

included within other current liabilities were \$769 million, \$639 million and \$610 million at June 30, 2011, September 30, 2010 and June 30, 2010, respectively.

**5. Inventories**

Inventories consisted of the following (in millions):

	June 30, 2011	September 30, 2010	June 30, 2010
Raw materials and supplies	\$ 1,144	\$ 899	\$ 787
Work-in-process	428	278	254
Finished goods	1,013	743	693
FIFO inventories	2,585	1,920	1,734
LIFO reserve	(134)	(134)	(90)
Inventories	\$ 2,451	\$ 1,786	\$ 1,644

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

**6. Goodwill and Other Intangible Assets**

Effective October 1, 2010, the building efficiency business unit reorganized its management reporting structure to reflect its current business activities. Historical information has been revised to reflect the new building efficiency reportable segment structure. Refer to Note 17, Segment Information, to the financial statements for further information.

The changes in the carrying amount of goodwill in each of the Company's reporting segments for the three month period ended September 30, 2010 and the nine month period ended June 30, 2011 were as follows (in millions):

	June 30, 2010	Business Acquisitions	Currency Translation and Other	September 30, 2010
Building efficiency				
North America systems	\$ 526	\$	\$ (4)	\$ 522
North America service	672	4		676
Global workplace solutions	169		8	177
Asia	368		11	379
Other	1,035		50	1,085
Automotive experience				
North America	1,377		1	1,378
Europe	1,022	4	114	1,140
Asia	218		15	233
Power solutions	830	51	30	911
Total	\$ 6,217	\$ 59	\$ 225	\$ 6,501

	September 30, 2010	Business Acquisitions	Currency Translation and Other	June 30, 2011
Building efficiency				
North America systems	\$ 522	\$	\$ (3)	\$ 519
North America service	676			676
Global workplace solutions	177		7	184
Asia	379		12	391
Other	1,085		36	1,121
Automotive experience				
North America	1,378	4		1,382
Europe	1,140	429	70	1,639
Asia	233		10	243
Power solutions	911	3	24	938
Total	\$ 6,501	\$ 436	\$ 156	\$ 7,093



**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

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

	June 30, 2011			September 30, 2010			June 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets									
Patented technology	\$ 287	\$ (215)	\$ 72	\$ 277	\$ (191)	\$ 86	\$ 266	\$ (180)	\$ 86
Customer relationships	440	(85)	355	373	(70)	303	344	(64)	280
Miscellaneous	113	(35)	78	68	(31)	37	63	(28)	35
Total amortized intangible assets	840	(335)	505	718	(292)	426	673	(272)	401
Unamortized intangible assets									
Trademarks	317		317	315		315	294		294
Total intangible assets	\$ 1,157	\$ (335)	\$ 822	\$ 1,033	\$ (292)	\$ 741	\$ 967	\$ (272)	\$ 695

Amortization of other intangible assets for the three month periods ended June 30, 2011 and 2010 was \$13 million and \$10 million, respectively. Amortization of other intangible assets for the nine month periods ended June 30, 2011 and 2010 was \$36 million and \$32 million, respectively. Excluding the impact of future acquisitions, the Company anticipates amortization for fiscal 2012, 2013, 2014, 2015 and 2016 will be approximately \$46 million, \$40 million, \$38 million, \$36 million and \$33 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 adequacy of 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 condensed consolidated statement 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, 2011 and 2010 were as follows (in millions):

	Nine Months Ended June 30,	
	2011	2010
Balance at beginning of period	\$ 337	\$ 344
Accruals for warranties issued during the period	150	169
Accruals from acquisitions		2

Edgar Filing: JOHNSON CONTROLS INC - Form 10-Q

Accruals related to pre-existing warranties (including changes in estimates)	(32)	(1)
Settlements made (in cash or in kind) during the period	(165)	(184)
Currency translation	5	(9)
Balance at end of period	\$ 295	\$ 321

Table of Contents

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

**8. Restructuring Costs**

To better align the Company's cost structure with global automotive market conditions, the Company committed to a restructuring plan (2009 Plan) in the second quarter of fiscal 2009 and recorded a \$230 million restructuring charge. The restructuring charge related to cost reduction initiatives in the Company's automotive experience, building efficiency and power solutions businesses and included workforce reductions and plant consolidations. The Company expects to substantially complete the 2009 Plan by the end of 2011. The automotive-related restructuring actions targeted excess manufacturing capacity resulting from lower industry production in the European, North American and Japanese automotive markets. The restructuring actions in building efficiency were primarily in Europe where the Company is centralizing certain functions and rebalancing its resources to target the geographic markets with the greatest potential growth. Power solutions actions focused on optimizing its manufacturing capacity as a result of lower overall demand for original equipment batteries resulting from lower vehicle production levels.

Since the announcement of the 2009 Plan in March 2009, the Company has experienced lower employee severance and termination benefit cash payouts than previously calculated for automotive experience in Europe of approximately \$70 million, all of which was identified prior to the current fiscal year, due to favorable severance negotiations and the decision to not close previously planned plants in response to increased customer demand. The underspend of the initial 2009 Plan reserves has been committed for additional costs incurred as part of power solutions and automotive experience Europe and North America's additional cost reduction initiatives. The planned workforce reductions disclosed for the 2009 Plan have been updated for the Company's revised actions.

The following table summarizes the changes in the Company's 2009 Plan reserve, included within other current liabilities in the condensed consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits	Currency Translation	Total
Balance at September 30, 2010	\$ 54	\$ 2	\$ 56
Utilized cash	(6)		(6)
Balance at December 31, 2010	\$ 48	\$ 2	\$ 50
Utilized cash	(24)		(24)
Utilized noncash		1	1
Balance at March 31, 2011	\$ 24	\$ 3	\$ 27
Utilized cash	(8)		(8)
Utilized noncash		(1)	(1)
Balance at June 30, 2011	\$ 16	\$ 2	\$ 18

To better align the Company's resources with its growth strategies while reducing the cost structure of its global operations, the Company committed to a restructuring plan (2008 Plan) in the fourth quarter of fiscal 2008 and

recorded a \$495 million restructuring charge. The restructuring charge related to cost reduction initiatives in its automotive experience, building efficiency and power solutions businesses and included workforce reductions and plant consolidations. The Company expects to substantially complete the 2008 Plan by the end of 2011. The automotive-related restructuring was in response to the fundamentals of the European and North American automotive markets. The actions targeted reductions in the Company's cost base by decreasing excess manufacturing capacity due to lower industry production and the continued movement of vehicle production to low-cost countries, especially in Europe. The restructuring actions in building efficiency were primarily in Europe where the Company centralized certain functions and rebalanced its resources to target the geographic markets with the greatest potential growth. Power solutions actions focused on optimizing its regional manufacturing capacity.



**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

Since the announcement of the 2008 Plan in September 2008, the Company has experienced lower employee severance and termination benefit cash payouts than previously calculated in Europe for building efficiency and automotive experience of approximately \$95 million, all of which was identified prior to the current fiscal year, due to favorable severance negotiations, individuals transferred to open positions within the Company and changes in cost reduction actions from plant consolidation to downsizing of operations. The underspend of the initial 2008 Plan has been committed for similar additional restructuring actions. The underspend experienced by building efficiency in Europe has been committed by the same group for workforce reductions and plant consolidations. The underspend experienced by automotive experience in Europe has been committed for additional plant consolidations for automotive experience in North America and workforce reductions for building efficiency in Europe. The planned workforce reductions disclosed for the 2008 Plan have been updated for the Company's revised actions.

The following table summarizes the changes in the Company's 2008 Plan reserve, included within other current liabilities in the condensed consolidated statements of financial position (in millions):

	Employee Severance and Termination Benefits	Currency Translation	Total
Balance at September 30, 2010	\$ 108	\$ (28)	\$ 80
Utilized cash	(24)		(24)
Utilized noncash		(2)	(2)
Balance at December 31, 2010	\$ 84	\$ (30)	\$ 54
Utilized cash	(15)		(15)
Utilized noncash		1	1
Balance at March 31, 2011	\$ 69	\$ (29)	\$ 40
Utilized cash	(6)		(6)
Utilized noncash		3	3
Balance at June 30, 2011	\$ 63	\$ (26)	\$ 37

The 2008 and 2009 Plans included workforce reductions of approximately 20,400 employees (9,500 for automotive experience North America, 5,200 for automotive experience Europe, 1,100 for automotive experience Asia, 2,900 for building efficiency other, 700 for building efficiency global workplace solutions, 200 for building efficiency Asia and 800 for power solutions). Restructuring charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of June 30, 2011, approximately 17,100 of the employees have been separated from the Company pursuant to the 2008 and 2009 Plans. In addition, the 2008 and 2009 Plans included 33 plant closures (14 for automotive experience North America, 11 for automotive experience Europe, 3 for automotive experience Asia, 2 for building efficiency other and 3 for power solutions). As of June 30, 2011, 26 of the 33 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.

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

**9. Income Taxes**

The more significant components of the Company's income tax provision are as follows (in millions):

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Federal, state and foreign income tax expense at annual effective rate	\$ 89	\$ 82	\$ 274	\$ 218
Valuation allowance adjustment		(13)		(106)
Uncertain tax positions		(38)		(7)
Medicare Part D				18
Provision for income taxes	\$ 89	\$ 31	\$ 274	\$ 123

***Effective Tax Rate***

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, 2011, the Company's estimated annual effective income tax rate from continuing operations is 19% versus the prior year rate of 18%.

***Valuation Allowance***

The Company reviews its deferred tax asset valuation allowances 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.

It is reasonably possible that over the remainder of fiscal 2011, valuation allowances against deferred tax assets in certain jurisdictions of up to \$50 million may be released.

In the third quarter of fiscal 2010, 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 the deferred tax assets within a Slovakia automotive entity would be utilized. Therefore, the Company released \$13 million of valuation allowances in the three month period ended June 30, 2010.

In the first quarter of fiscal 2010, the Company determined that it was more likely than not that a portion of the deferred tax assets within the Brazil automotive entity would be utilized. Therefore, the Company released \$69 million of valuation allowances. This was comprised of a \$93 million decrease in income tax expense offset by a \$24 million reduction in cumulative translation adjustments.

***Uncertain Tax Positions***

At September 30, 2010, the Company had gross tax effected unrecognized tax benefits of \$1,262 million of which \$1,063 million, if recognized, would impact the effective tax rate. Total net accrued interest at September 30, 2010 was approximately \$68 million (net of tax benefit). The net change in interest and penalties during the nine months ended June 30, 2011 was \$27 million, and for the same period in fiscal 2010 was \$52 million, including \$26 million of periodic interest expense on existing uncertain tax positions and \$26 million related to the events described

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

below. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Based on published case law in a non-U.S. jurisdiction and the settlement of a tax audit during the third quarter of fiscal 2010, the Company released net \$38 million of reserves for uncertain tax positions, including interest and penalties.

As a result of certain events related to prior year tax planning initiatives, during the first quarter of fiscal 2010, the Company increased the reserve for uncertain tax positions by \$31 million, including \$26 million of interest and penalties, which impacted the effective tax rate.

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. Judgment is required in determining its worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of the Company's business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company is regularly under audit by tax authorities, including major jurisdictions noted below:

Tax Jurisdiction	Statute of Limitations
Austria	5 years
Belgium	3 years
Brazil	5 years
Canada	5 years
China	3 to 5 years
Czech Republic	3 years
France	3 years
Germany	4 to 5 years
Italy	4 years
Japan	5 to 7 years
Mexico	5 years
Poland	5 years
Spain	4 years
United Kingdom	4 years
United States - Federal	3 years
United States - State	3 to 5 years

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

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

Tax Jurisdiction	Tax Years Covered	
Austria	2006	2008
Belgium	2008	2009
Brazil	2005	2008
Canada	2007	2008
Czech Republic	2007	2008
France	2002	2010
Germany	2001	2009
Italy	2005	2007
Mexico	2003	2004
Poland	2007	2008
Spain	2006	2008

It is reasonably possible that certain tax examinations, appellate proceedings and/or tax litigation will conclude within the next 12 months, the impact of which could be up to a \$100 million adjustment to tax expense.

***Impacts of Tax Legislation***

On March 23, 2010, the U.S. President signed into law comprehensive health care reform legislation under the Patient Protection and Affordable Care Act (HR3590). Included among the major provisions of the law is a change in the tax treatment of a portion of Medicare Part D medical payments. The Company recorded a noncash charge of approximately \$18 million in the second quarter of fiscal year 2010 to reflect the impact of this change.

During the nine month period ended June 30, 2011, tax legislation was adopted in various jurisdictions. None of these changes had a material impact on the Company's consolidated financial condition, results of operations or cash flows.

**10. Retirement Plans**

The components of the Company's net periodic benefit costs associated with its defined benefit pension plans and other postretirement health and other benefits are shown in the tables below in accordance with ASC 715, Compensation - Retirement Benefits (in millions):

	U.S. Pension Plans			
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Service cost	\$ 16	\$ 16	\$ 49	\$ 50
Interest cost	36	38	108	114
Expected return on plan assets	(53)	(44)	(157)	(134)
Amortization of net actuarial loss	14	8	42	22
Amortization of prior service cost	1		1	1

Net periodic benefit cost	\$ 14	\$ 18	\$ 43	\$ 53
---------------------------	-------	-------	-------	-------

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

	Non-U.S. Pension Plans			
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Service cost	\$ 9	\$ 9	\$ 26	\$ 28
Interest cost	17	16	51	51
Expected return on plan assets	(20)	(15)	(58)	(47)
Amortization of net actuarial loss	3	3	9	8
Amortization of prior service cost			1	
Settlement loss				1
Curtailment gain			(19)	
Net periodic benefit cost	\$ 9	\$ 13	\$ 10	\$ 41

	Postretirement Health and Other Benefits			
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Service cost	\$ 1	\$ 1	\$ 3	\$ 3
Interest cost	3	4	10	11
Amortization of net actuarial loss	1		2	
Amortization of prior service credit	(4)	(4)	(13)	(13)
Net periodic benefit cost	\$ 1	\$ 1	\$ 2	\$ 1

**11. Debt and Financing Arrangements**

During the quarter ended June 30, 2011, a 150 million euro revolving credit facility and a 50 million euro revolving credit facility matured. There were no draws outstanding on either facility.

During the quarter ended June 30, 2011, a total of 157,820 equity units, which had a purchase contract settlement date of March 31, 2012, were early exercised. As a result, the Company issued 766,673 shares of Johnson Controls, Inc. common stock and approximately \$8 million of 11.50% notes due 2042.

During the quarter ended March 31, 2011, the Company replaced its \$2.05 billion committed five-year credit facility, scheduled to mature in December 2011, with a \$2.5 billion committed four-year credit facility scheduled to mature in February 2015. The facility is used to support the Company's outstanding commercial paper. At June 30, 2011, there were no draws on the facility.

During the quarter ended March 31, 2011, the Company issued \$350 million aggregate principal amount of floating rate senior unsecured notes due in fiscal 2014, \$450 million aggregate principal amount of 1.75% senior unsecured fixed rate notes due in fiscal 2014, \$500 million aggregate principal amount of 4.25% senior unsecured fixed rate notes due in fiscal 2021 and \$300 million aggregate principal amount of 5.70% senior unsecured fixed rate notes due in fiscal 2041. Aggregate net proceeds of \$1.6 billion from the issues were used for general



corporate purposes including the retirement of short-term debt.

During the quarter ended March 31, 2011, the Company entered into a 6-year, 100 million euro, floating rate loan scheduled to mature in February 2017. Proceeds from the facility were used for general corporate purposes.

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

During the quarter ended March 31, 2011, the Company retired \$654 million in principal amount, plus accrued interest, of its 5.25% fixed rate notes that matured on January 15, 2011. The Company used cash to fund the payment.

During the quarter ended March 31, 2011, the Company retired its \$100 million committed revolving facility prior to its scheduled maturity date of December 2011. There were no draws on the facility.

During the quarter ended December 31, 2010, the Company repaid debt of \$82 million which was acquired as part of an acquisition in the same quarter. The Company used cash to repay the debt.

During the quarter ended June 30, 2010, the Company retired approximately \$18 million in principal amount of its fixed rate notes scheduled to mature on January 15, 2011. The Company used cash to fund the repurchases.

During the quarter ended June 30, 2010, a total of 200 bonds (\$200,000 par value) of the Company's 6.5% convertible senior notes scheduled to mature on September 30, 2012, were redeemed for Johnson Controls, Inc. common stock.

During the quarter ended June 30, 2010, a 50 million euro revolving credit facility expired and the Company entered into a new one year committed, revolving credit facility in the amount of 50 million euro expiring in May 2011. At June 30, 2010, there were no draws on the revolving credit facility.

During the quarter ended March 31, 2010, the Company issued \$500 million aggregate principal amount of 5.0% senior unsecured fixed rate notes due in fiscal 2020. Net proceeds from the issue were used for general corporate purposes including the retirement of short-term debt.

During the quarter ended March 31, 2010, the Company retired approximately \$61 million in principal amount of its fixed rate notes scheduled to mature on January 15, 2011. The Company used cash to fund the repurchases.

During the quarter ended March 31, 2010, the Company retired its 18 billion yen, three year, floating rate loan agreement scheduled to mature on January 18, 2011. The Company used cash to repay the note.

During the quarter ended December 31, 2009, the Company retired its 12 billion yen, three year, floating rate loan agreement that matured. Additionally, the Company retired its 7 billion yen, three year, floating rate loan agreement scheduled to mature on January 18, 2011. The Company used cash to repay the notes.

During the quarter ended December 31, 2009, the Company retired approximately \$13 million in principal amount of its fixed rate notes scheduled to mature on January 15, 2011. Additionally, the Company repurchased 1,685 notes (\$1,685,000 par value) of its 6.5% convertible senior notes scheduled to mature on September 30, 2012. The Company used cash to fund the repurchases.

**12. Earnings Per Share**

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is calculated by dividing net income 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. The treasury stock method assumes that the Company uses the proceeds from the exercise of awards to repurchase common stock at the average market price during the period. The assumed

proceeds under the treasury stock method include the purchase price that the grantee will pay in the future, compensation cost for future service that the Company has not yet recognized and any windfall tax benefits that would be credited to 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.

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

The Company's outstanding Equity Units due 2042 and 6.5% convertible senior notes due 2012 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 and convertible senior notes 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,	
	2011	2010	2011	2010
<b>Income Available to Common Shareholders</b>				
Basic income available to common shareholders	\$ 357	\$ 418	\$ 1,086	\$ 1,042
Interest expense, net of tax	1	1	2	4
Diluted income available to common shareholders	\$ 358	\$ 419	\$ 1,088	\$ 1,046
<b>Weighted Average Shares Outstanding</b>				
Basic weighted average shares outstanding	678.6	672.7	677.1	671.6
Effect of dilutive securities:				
Stock options	8.7	6.2	8.6	6.1
Equity units	3.9	4.5	4.3	4.5
Convertible senior notes		0.1		0.1
Diluted weighted average shares outstanding	691.2	683.5	690.0	682.3

**Antidilutive Securities**

Options to purchase common shares 0.5 0.5

During the three months ended June 30, 2011 and 2010, the Company declared a dividend of \$0.16 and \$0.13, respectively, per common share. During the nine months ended June 30, 2011 and 2010, the Company declared three quarterly dividends totaling \$0.48 and \$0.39, respectively, per common share. The Company paid all dividends in the month subsequent to the end of each fiscal quarter.

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

**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, 2011			Three Months Ended June 30, 2010		
	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	\$ 10,976	\$ 130	\$ 11,106	\$ 9,378	\$ 96	\$ 9,474
Total comprehensive income (loss):						
Net income	357	10	367	418	(5)	413
Foreign currency translation adjustments	131	(1)	130	(322)	(2)	(324)
Realized and unrealized losses on derivatives	(7)		(7)	(14)		(14)
Unrealized losses on marketable common stock				(2)		(2)
Employee retirement plans	(6)		(6)	5		5
Other comprehensive income (loss)	118	(1)	117	(333)	(2)	(335)
Comprehensive income (loss)	475	9	484	85	(7)	78
Other changes in equity:						
Cash dividends - common stock	(109)		(109)	(88)		(88)
Dividends attributable to noncontrolling interests		(22)	(22)		(3)	(3)
Redemption value adjustment attributable to redeemable noncontrolling interests	(2)		(2)			
Other, including options exercised	21	1	22	20	1	21
Ending balance, June 30	\$ 11,361	\$ 118	\$ 11,479	\$ 9,395	\$ 87	\$ 9,482



**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

	Nine Months Ended June 30, 2011			Nine Months Ended June 30, 2010		
	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	\$ 10,071	\$ 106	\$ 10,177	\$ 9,100	\$ 84	\$ 9,184
Total comprehensive income:						
Net income	1,086	41	1,127	1,042	25	1,067
Foreign currency translation adjustments	301		301	(604)	(3)	(607)
Realized and unrealized losses on derivatives	(5)		(5)	(7)		(7)
Unrealized gains (losses) on marketable common stock	7		7	(2)		(2)
Employee retirement plans	65		65	43		43
Other comprehensive income (loss)	368		368	(570)	(3)	(573)
Comprehensive income	1,454	41	1,495	472	22	494
Other changes in equity:						
Cash dividends - common stock	(326)		(326)	(262)		(262)
Dividends attributable to noncontrolling interests		(30)	(30)		(20)	(20)
Redemption value adjustment attributable to redeemable noncontrolling interests	3		3	9		9
Other, including options exercised	159	1	160	76	1	77
Ending balance, June 30	\$ 11,361	\$ 118	\$ 11,479	\$ 9,395	\$ 87	\$ 9,482

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, 2011	Three Months Ended June 30, 2010
Beginning balance, March 31	\$ 223	\$ 153
Net income	13	13
Foreign currency translation adjustments	(3)	(3)
Dividends attributable to redeemable noncontrolling interests	(6)	
Redemption value adjustment	2	
Ending balance, June 30	\$ 229	\$ 163



**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Beginning balance, September 30	\$ 196	\$ 155
Net income	41	22
Foreign currency translation adjustments	1	(5)
Dividends attributable to noncontrolling interests	(6)	
Redemption value adjustment	(3)	(9)
Ending balance, June 30	\$ 229	\$ 163

**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, to the 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. In the second quarter of fiscal 2010, the Company entered into three cross-currency interest rate swaps totaling 20 billion yen. In the fourth quarter of fiscal 2010, a 5 billion yen cross-currency swap matured. In the first quarter of fiscal 2011, another 5 billion yen cross-currency swap matured. In the second quarter of fiscal 2011, a 10 billion yen cross-currency swap matured. All three of these cross-currency interest rate swaps were renewed for one year in their respective periods. These swaps are designated as hedges of the Company's net investment in Japan.

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 statement 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, 2011	September 30, 2010	June 30, 2010
Copper	Pounds	13,150,000	24,550,000	16,735,000
Lead	Metric Tons	26,517	18,450	25,961
	Metric Tons	1,134	8,276	

In addition, 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

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

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, 2011, September 30, 2010 and June 30, 2010, the Company had hedged approximately 4.3 million, 3.4 million and 3.4 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 notes. 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 statement of income. During the second quarter of fiscal 2010, the Company entered into a fixed to floating interest rate swap totaling \$100 million to hedge the coupon of its 5.80% notes maturing November 15, 2012 and two fixed to floating swaps totaling \$300 million to hedge the coupon of its 4.875% notes maturing September 15, 2013. In the fourth quarter of fiscal 2010, the Company terminated all of its interest rate swaps. 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 5.80% 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.

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 Corp. (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 lock treasury agreements were terminated.

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

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

	Derivatives and Hedging Activities Designated as Hedging Instruments under ASC 815 September			Derivatives and Hedging Activities Not Designated as Hedging Instruments under ASC 815 September		
	June 30, 2011	30, 2010	June 30, 2010	June 30, 2011	30, 2010	June 30, 2010
Other current assets						
Foreign currency exchange derivatives	\$ 8	\$ 19	\$ 14	\$	\$ 8	\$ 9
Commodity derivatives	8	14	2			
Other noncurrent assets						
Interest rate swaps	15		9			
Equity swap				177	104	91
Foreign currency exchange derivatives	1	1	1	1	1	1
Total assets	\$ 32	\$ 34	\$ 26	\$ 178	\$ 113	\$ 101
Current portion of long-term debt						
Fixed rate debt swapped to floating	\$	\$	\$ 594	\$	\$	\$
Other current liabilities						
Foreign currency exchange derivatives	7	19	15	1	8	8
Net investment hedges	8	17	7			
Commodity derivatives	1		8			
Long-term debt						
Fixed rate debt swapped to floating	865		404			
Other noncurrent liabilities						
Foreign currency exchange derivatives	1	1	2		1	1
Total liabilities	\$ 882	\$ 37	\$ 1,030	\$ 1	\$ 9	\$ 9

Table of Contents

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

The following table presents the location and amount of gains and losses gross of tax on derivative instruments and related hedge items included in the Company's consolidated statements of income for the three and nine months ended June 30, 2011 and 2010 and amounts recorded in AOCI net of tax or cumulative translation adjustment (CTA) net of tax in the condensed consolidated statements of financial position (in millions):

	As of	Three Months Ended		Three Months Ended	
	June 30, 2011	June 30, 2011		June 30, 2011	
		Amount of			
	Amount of	Location	(Loss)	Location	Amount of
	Gain	of	Reclassified	of	Gain
	(Loss)	Gain	from AOCI	Gain	(Loss)
	Recognized	Reclassified	into	Recognized	Recognized
	in	from	Income	in	in
	AOCI on	Income	(Effective	Income	Income on
Derivatives in ASC 815 Cash Flow	Derivative	(Effective	Portion)	(Ineffective	Derivative
Hedging Relationships	Portion)	Portion)	Portion)	Portion)	(Ineffective
	Cost	Cost	Cost	Cost	Portion)
	of	of	of	of	Portion)
Foreign currency exchange derivatives	\$ 1	sales	\$ 2	sales	\$
		Cost		Cost	
Commodity derivatives	5	of	7	of	
		sales		sales	
		Net		Net	
Forward treasury locks	9	financing		financing	
		charges		charges	
Total	\$ 15		\$ 9		\$

	Nine Months Ended		Nine Months Ended	
	June 30, 2011		June 30, 2011	
	Amount of			
	Gain			
	Location	(Loss)	Location	Amount of
	of	Reclassified	of	Gain
	Gain	from AOCI	Gain	(Loss)
	(Loss)	into	(Loss)	Recognized
	Reclassified		Recognized	in
	from		in	Recognized in

Edgar Filing: JOHNSON CONTROLS INC - Form 10-Q

Derivatives in ASC 815 Cash Flow	AOCI		Income on	
	into			
Hedging Relationships	Income (Effective Portion)	Income (Effective Portion)	Derivative (Ineffective Portion)	Income on Derivative (Ineffective Portion)
Foreign currency exchange derivatives	Cost of sales	\$ 6	Cost of sales	\$
Commodity derivatives	Cost of sales	26	Cost of sales	
Forward treasury locks	Net financing charges	1	Net financing charges	
Total		\$ 33		\$

Derivatives in ASC 815 Cash Flow	As of	Three Months Ended		Three Months Ended	
	June 30, 2010	June 30, 2010		June 30, 2010	
Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
Foreign currency exchange derivatives	\$ (1)	Cost of sales	\$ 1	Cost of sales	\$
Commodity derivatives	(5)	Cost of sales	(1)	Cost of sales	
Forward treasury locks	11	Net financing charges	1	Net financing charges	
Total	\$ 5		\$ 1		\$

Nine Months Ended  
June 30, 2010

Nine Months Ended  
June 30, 2010

	Location of Gain (Loss)	Amount of Gain (Loss) Reclassified	Location of Gain (Loss) Recognized in Income on	Amount of Gain (Loss) Recognized in
	Reclassified from AOCI into Income (Effective Portion)	from AOCI into Income (Effective Portion)	Derivative (Ineffective Portion)	Income on Derivative (Ineffective Portion)
Derivatives in ASC 815 Cash Flow				
Hedging Relationships				
Foreign currency exchange derivatives	Cost of sales	\$ (3)	Cost of sales	\$
Commodity derivatives	Cost of sales	1	Cost of sales	
Forward treasury locks	Net financing charges	2	Net financing charges	
Total		\$		\$

	As of June 30, 2011 Amount of Gain (Loss) Recognized in CTA on Outstanding Derivatives (Effective Portion)	As of June 30, 2010 Amount of Gain (Loss) Recognized in CTA on Outstanding Derivatives (Effective Portion)
Hedging Activities in ASC 815 Net Investment Hedging Relationships		
Net investment hedges	\$ (5)	\$ (4)
Total	\$ (5)	\$ (4)

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

For the three and nine months ended June 30, 2011 and 2010, no gains or losses were reclassified from CTA into income for the Company's outstanding net investment hedges.

	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended June 30, 2011 Amount of Gain (Loss)	Nine Months Ended June 30, 2011 Amount of Gain (Loss)
Derivatives in ASC 815 Fair Value Hedging Relationships		Recognized in Income on Derivative	Recognized in Income on Derivative
Interest rate swap	Net financing charges	\$ 12	\$ 14
Fixed rate debt swapped to floating	Net financing charges	(11)	(14)
Total		\$ 1	\$

	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended June 30, 2010 Amount of Gain (Loss)	Nine Months Ended June 30, 2010 Amount of Gain (Loss)
Derivatives in ASC 815 Fair Value Hedging Relationships		Recognized in Income on Derivative	Recognized in Income on Derivative
Interest rate swap	Net financing charges	\$ 4	\$ 4
Fixed rate debt swapped to floating	Net financing charges	(1)	5
Total		\$ 3	\$ 9

	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended June 30, 2011 Amount of Gain (Loss)	Nine Months Ended June 30, 2011 Amount of Gain (Loss)
Derivatives Not Designated as Hedging Instruments under ASC 815		Recognized in Income on Derivative	Recognized in Income on Derivative
Foreign currency exchange derivatives	Cost of sales	\$ 8	\$ 18
Foreign currency exchange derivatives	Net financing charges	(7)	(9)



Equity swap	Selling, general and administrative expenses			42
Total		\$	1	\$ 51
			Three Months Ended June 30, 2010 Amount of Gain (Loss)	Nine Months Ended June 30, 2010 Amount of Gain (Loss)
Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain (Loss) Recognized in Income on Derivative		Recognized in Income on Derivative	Recognized in Income on Derivative
Foreign currency exchange derivatives	Cost of sales	\$	110	\$ 198
Foreign currency exchange derivatives	Net financing charges		(103)	(160)
Equity swap	Selling, general and administrative expenses		(21)	2
Commodity derivatives	Cost of sales		1	1
Total		\$	(13)	\$ 41

### 15. Fair Value Measurements

ASC 820, Fair Value Measurements and Disclosures, 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.

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

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, 2011, September 30, 2010 and June 30, 2010 (in millions):

	Total as of June 30, 2011	Fair Value Measurements Using:		
		Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$ 8	\$ 8	\$	\$
Commodity derivatives	8		8	
Other noncurrent assets				
Interest rate swaps	15		15	
Investments in marketable common stock	38	38		
Equity swap	177	177		
Foreign currency exchange derivatives	2	2		
<b>Total assets</b>	<b>\$ 248</b>	<b>\$ 225</b>	<b>\$ 23</b>	<b>\$</b>
Other current liabilities				
Foreign currency exchange derivatives	\$ 8	\$ 8	\$	\$
Cross-currency interest rate swaps	8		8	
Commodity derivatives	1		1	
Long-term debt				
Fixed rate debt swapped to floating	865		865	
Other noncurrent liabilities				
Foreign currency exchange derivatives	1	1		
<b>Total liabilities</b>	<b>\$ 883</b>	<b>\$ 9</b>	<b>\$ 874</b>	<b>\$</b>

Table of Contents

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

	Total as of September 30, 2010	Fair Value Measurements Using:		
		Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$ 27	\$ 27	\$	\$
Commodity derivatives	14		14	
Other noncurrent assets				
Investments in marketable common stock	31	31		
Equity swap	104	104		
Foreign currency exchange derivatives	2	2		
<b>Total assets</b>	<b>\$ 178</b>	<b>\$ 164</b>	<b>\$ 14</b>	<b>\$</b>
Other current liabilities				
Foreign currency exchange derivatives	\$ 27	\$ 27	\$	\$
Cross-currency interest rate swaps	17		17	
Other noncurrent liabilities				
Foreign currency exchange derivatives	2	2		
<b>Total liabilities</b>	<b>\$ 46</b>	<b>\$ 29</b>	<b>\$ 17</b>	<b>\$</b>

29

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

	Total as of June 30, 2010	Fair Value Measurements Using:		
		Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other current assets				
Foreign currency exchange derivatives	\$ 23	\$ 23	\$	\$
Commodity derivatives	2		2	
Other noncurrent assets				
Interest rate swaps	9		9	
Investments in marketable common stock	24	24		
Equity swap	91	91		
Foreign currency exchange derivatives	2	2		
<b>Total assets</b>	<b>\$ 151</b>	<b>\$ 140</b>	<b>\$ 11</b>	<b>\$</b>
Current portion of long-term debt				
Fixed rate debt swapped to floating	\$ 594	\$	\$ 594	\$
Other current liabilities				
Foreign currency exchange derivatives	23	23		
Cross-currency interest rate swaps	7		7	
Commodity derivatives	8		8	
Long-term debt				
Fixed rate debt swapped to floating	404		404	
Other noncurrent liabilities				
Foreign currency exchange derivatives	3	3		
<b>Total liabilities</b>	<b>\$ 1,039</b>	<b>\$ 26</b>	<b>\$ 1,013</b>	<b>\$</b>

*Valuation Methods*

Foreign currency exchange derivatives The Company selectively hedges anticipated transactions that are subject to foreign exchange rate risk primarily using foreign currency exchange hedge contracts. The foreign currency exchange derivatives are valued under a market approach using publicized spot and forward prices. 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 accumulated other comprehensive income and are subsequently reclassified into earnings when the hedged transactions occur and affect earnings. Any ineffective portion of the hedge is reflected in the consolidated statement of income. These contracts are highly effective in hedging the variability in future cash flows attributable to changes in currency exchange rates at June 30, 2011, September 30, 2010 and June 30, 2010. The fair value of foreign currency exchange derivatives not designated as hedging instruments under ASC 815 are recorded in the consolidated

statement of income.

**Commodity derivatives** The Company selectively hedges anticipated transactions that are subject to commodity price risk, primarily using commodity hedge contracts, to minimize overall price risk associated with the Company's purchases of lead, copper and aluminum. The commodity derivatives are valued under a market approach using publicized prices, where available, or dealer quotes. 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 accumulated other comprehensive income and are subsequently reclassified into earnings when the hedged transactions, typically sales or cost related to sales, occur and affect earnings. Any ineffective portion of the hedge is reflected in the consolidated statement of income. These contracts are highly effective in hedging the variability in future cash flows attributable to commodity price changes at June 30, 2011, September 30, 2010 and June 30, 2010.

30

---

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

**Interest rate swaps and related debt** The Company selectively uses interest rate swaps to reduce market risk associated with changes in interest rates for its fixed-rate notes. 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 statement of income. During the second quarter of fiscal 2010, the Company entered into a fixed to floating interest rate swap totaling \$100 million to hedge the coupons of its 5.80% notes maturing November 15, 2012 and two fixed to floating interest rate swaps totaling \$300 million to hedge the coupons of its 4.875% notes maturing September 15, 2013. In the fourth quarter of fiscal 2010, the Company terminated all of its interest rate swaps. 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 5.80% 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.

**Investments in marketable common stock** The Company invested in certain marketable common stock during the third quarter of fiscal 2010. The securities are valued under a market approach using publicized share prices. As of June 30, 2011 and September 30, 2010, the Company recorded unrealized gains of \$10 million and \$3 million, respectively, in other comprehensive income on these investments. As of June 30, 2010, the Company recorded unrealized losses of \$2 million in other comprehensive income on these investments.

**Equity swaps** 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. The equity swaps are valued under a market approach as the fair value of the swaps is equal to the Company's stock price at the reporting period date. Changes in fair value on the equity swaps are reflected in the consolidated statement of income within selling, general and administrative expenses.

**Cross-currency interest rate swaps** The Company selectively uses cross-currency interest rate swaps to hedge the foreign currency rate risk associated with certain of its investments in Japan. The cross-currency interest rate swaps are valued using market assumptions. Changes in the market value of the swaps are reflected in the foreign currency translation adjustments component of accumulated other comprehensive income where they offset gains and losses recorded on the Company's net investment in Japan. The Company entered into three cross-currency swaps totaling 20 billion yen during the second quarter of fiscal 2010. In the fourth quarter of fiscal 2010, a 5 billion yen cross-currency swap matured. In the first quarter of fiscal 2011, another 5 billion yen cross-currency swap matured. In the second quarter of fiscal 2011, a 10 billion yen cross-currency swap matured. All three of these cross-currency swaps were renewed for one year in their respective periods. These swaps are designated as hedges of the Company's net investment in Japan.

The fair values of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate their carrying values. The fair value of long-term debt, which was \$4.9 billion, \$3.7 billion and \$3.6 billion at June 30, 2011, September 30, 2010 and June 30, 2010, respectively, was determined using market quotes.

#### **16. Impairment of Long-Lived Assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Company conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, Impairment or Disposal of Long-Lived Assets. ASC 360-10-15 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. If the undiscounted cash flows do not indicate the carrying amount of the asset group is recoverable, an impairment charge is measured as the amount by which the carrying amount of the asset group exceeds its fair value based on discounted cash flow analysis or appraisals.

At June 30, 2011, the Company concluded it did not have any triggering events requiring assessment of impairment of its long-lived assets.

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

In the third quarter of fiscal 2010, the Company concluded it had a triggering event requiring assessment of impairment of its long-lived assets due to the planned relocation of its headquarters building in Japan in the automotive experience Asia segment. As a result, the Company reviewed its long-lived assets for impairment and recorded an \$11 million impairment charge within selling, general and administrative expenses in the third quarter of fiscal 2010 related to the Asia automotive experience segment. The impairment was measured under a market approach utilizing an appraisal. The inputs utilized in the analysis are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, Fair Value Measurements and Disclosures.

In the second quarter of fiscal 2010, the Company concluded it had a triggering event requiring assessment of impairment of its long-lived assets due to planned plant closures for the North America automotive experience segment. These closures are a result of the Company's revised restructuring actions to the 2008 Plan. Refer to Note 8, Restructuring Costs, to the financial statements for further information regarding the 2008 Plan. As a result, the Company reviewed its long-lived assets for impairment and recorded a \$19 million impairment charge in the second quarter of fiscal 2010 related to the North America automotive experience segment. This impairment charge was offset by a decrease in the Company's restructuring reserve related to the 2008 Plan due to lower employee severance and termination benefit cash payments than previously expected, as discussed further in Note 8. The impairment was measured under an income approach utilizing forecasted discounted cash flows for fiscal 2010 through 2014 to fair value the impaired assets. This method is consistent with the method the Company has employed in prior periods to value other long-lived assets. The inputs utilized in the discounted cash flow analysis are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, Fair Value Measurements and Disclosures.

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Company reviews goodwill for impairment during the fourth fiscal quarter or more frequently if events or changes in circumstances indicate the asset might be impaired. The Company performs impairment reviews for its reporting units, which have been determined to be the Company's reportable segments or one level below the reportable segments in certain instances, using a fair-value method based on management's judgments and assumptions or third party valuations. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. In estimating the fair value, the Company uses multiples of earnings based on the average of historical, published multiples of earnings of comparable entities with similar operations and economic characteristics. In certain instances, the Company uses discounted cash flow analyses to further support the fair value estimates. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, Fair Value Measurements and Disclosures. The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. The impairment testing performed by the Company in the fourth quarter of fiscal year 2010 indicated that the estimated fair value of each reporting unit substantially exceeded its corresponding carrying amount including recorded goodwill, and as such, no impairment existed at September 30, 2010. No reporting unit was determined to be at risk of failing step one of the goodwill impairment test.

At December 31, 2010, in conjunction with the preparation of its financial statements, the Company assessed goodwill for impairment in the building efficiency business unit due to the change in reportable segments as described in Note 17, Segment Information, to the financial statements. As a result, the Company performed impairment testing for goodwill under the new segment structure and determined that the estimated fair value of each reporting unit substantially exceeded its corresponding carrying amount including recorded goodwill, and as such, no impairment existed at December 31, 2010. No reporting unit was determined to be at risk of failing step one of the goodwill impairment test.



**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

**17. Segment Information**

Effective October 1, 2010, the building efficiency business unit of the Company reorganized its management reporting structure to reflect its current business activities.

Prior to this reorganization, building efficiency was comprised of six reportable segments for financial reporting purposes (North America systems, North America service, North America unitary products, global workplace solutions, Europe and rest of world). As a result of this change, building efficiency is now comprised of five reportable segments for financial reporting purposes (North America systems, North America service, global workplace solutions, Asia and other).

A summary of the significant building efficiency reportable segment changes is as follows:

The systems and services businesses in Asia, previously included in the rest of world segment, are now part of a new reportable segment named Asia.

The former Europe segment is now included in the former rest of world segment, which has been renamed other.

The former North America unitary products segment is now included in the other segment.

The Company's financial statements reflect the new building efficiency reportable segment structure and certain building efficiency cost allocation methodology changes. The changes in allocation methodology more specifically allocate engineering and other building efficiency costs to the reportable segments. Prior year building efficiency reportable segment information has been revised to conform to this presentation.

ASC 280, Segment Reporting, establishes the standards for reporting information about segments in financial statements. In applying the criteria set forth in ASC 280, the Company has determined that it has nine reportable segments for financial reporting purposes. Certain segments are aggregated or combined based on materiality within power solutions in accordance with the guidance. The Company's nine reportable segments are presented in the context of its three primary businesses—building efficiency, automotive experience and power solutions.

***Building efficiency***

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

North America systems designs, produces, markets and installs mechanical equipment that provides heating and cooling in North American non-residential buildings and industrial applications as well as control systems that integrate the operation of this equipment with other critical building systems.

North America service provides technical services including inspection, scheduled maintenance, repair and replacement of mechanical and control systems in North America, as well as the retrofit and service components of performance contracts and other solutions.

Global workplace solutions provides on-site staff for complete real estate services, facility operation and management to improve the comfort, productivity, energy efficiency and cost effectiveness of building systems around the globe.

Asia provides HVAC and refrigeration systems and technical services to the Asian marketplace.

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

Other provides HVAC and refrigeration systems and technical services to markets in Europe, the Middle East and Latin America. Other also designs and produces heating and air conditioning solutions for residential and light commercial applications and markets products to the replacement and new construction markets.

***Automotive experience***

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

***Power solutions***

Power solutions services both automotive original equipment manufacturers and the battery aftermarket by providing advanced battery technology, coupled with systems engineering, marketing and service expertise. Management evaluates the performance of the segments based primarily on segment income, which represents income before income taxes and noncontrolling interests excluding net financing charges. General Corporate and other overhead expenses are allocated to business segments in determining segment income. Financial information relating to the Company's reportable segments is as follows (in millions):

	Net Sales			
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Building efficiency				
North America systems	\$ 633	\$ 551	\$ 1,711	\$ 1,552
North America service	601	531	1,639	1,505
Global workplace solutions	1,046	787	3,053	2,404
Asia	498	349	1,334	988
Other	1,115	999	3,068	2,759
	3,893	3,217	10,805	9,208
Automotive experience				
North America	1,772	1,740	5,517	4,981
Europe	2,800	2,033	7,693	6,238
Asia	546	440	1,717	1,263
	5,118	4,213	14,927	12,482
Power solutions	1,353	1,110	4,313	3,575
Total net sales	\$ 10,364	\$ 8,540	\$ 30,045	\$ 25,265

**Table of Contents**

**Johnson Controls, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

	Segment Income			
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Building efficiency				
North America systems	\$ 66	\$ 61	\$ 169	\$ 144
North America service	35	25	69	50
Global workplace solutions	7	6	17	18
Asia	69	47	178	119
Other	30	51	45	67
	207	190	478	398
Automotive experience				
North America	67	97	328	293
Europe	24	49	40	110
Asia	51	25	162	78
	142	171	530	481
Power solutions	163	135	558	450
Total segment income	\$ 512	\$ 496	\$ 1,566	\$ 1,329
Net financing charges	(43)	(39)	(124)	(117)
Income before income taxes	\$ 469	\$ 457	\$ 1,442	\$ 1,212

**18. Commitments and Contingencies**

The Company accrues for potential environmental losses in a manner consistent with accounting principles generally accepted in the United States; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Reserves for environmental costs recorded in the condensed consolidated statements of financial position were \$42 million, \$47 million and \$38 million at June 30, 2011, September 30, 2010 and June 30, 2010, respectively. The Company reviews the status of its environmental sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company does not currently believe that any claims, penalties or

costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows. In addition, the Company has identified asset retirement obligations for environmental matters that are expected to be addressed at the retirement, disposal, removal or abandonment of existing owned facilities, primarily in the power solutions business. At June 30, 2011, September 30, 2010 and June 30, 2009, the Company recorded conditional asset retirement obligations in the condensed consolidated statements of financial position of \$95 million, \$84 million and \$81 million, respectively.

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

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

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

We have reviewed the accompanying condensed consolidated statements of financial position of Johnson Controls, Inc. and its subsidiaries (the Company) as of June 30, 2011 and 2010, and the related consolidated statements of income and of cash flows for the three-month and nine-month periods ended June 30, 2011 and 2010. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position as of September 30, 2010, and the related consolidated statements of income, of shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated November 23, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of September 30, 2010, is fairly stated in all material respects in relation to the consolidated statement of financial position from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin

August 3, 2011

*PricewaterhouseCoopers LLP, 100 East Wisconsin Avenue, Milwaukee, WI 53202*

*T: (414) 212- 1600, F: (414) 212- 1880, www.pwc.com/us*

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Cautionary Statements for Forward-Looking Information**

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

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

These forward-looking statements generally are identified by the words believe, project, expect, anticipate, estimate, forecast, outlook, intend, strategy, plan, may, should, will, would, will be, will continue, will not, and the negative thereof or variations thereon or similar terminology generally intended to identify forward-looking statements. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled Risk Factors of our Annual Report on Form 10-K for the year ended September 30, 2010 and in Item 1A of this Quarterly Report on Form 10-Q. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

**Overview**

Johnson Controls brings ingenuity to the places where people live, work and travel. By integrating technologies, products and services, we create smart environments that redefine the relationships between people and their surroundings. We strive to create a more comfortable, safe and sustainable world through our products and services to millions of vehicles, homes and commercial buildings. Johnson Controls provides innovative automotive interiors that help make driving more comfortable, safe and enjoyable. For buildings, we offer products and services that optimize energy use and improve comfort and security. We also provide batteries for automobiles and hybrid electric vehicles, along with related systems engineering, marketing and service expertise.

Johnson Controls was originally incorporated in the state of Wisconsin in 1885 as Johnson Electric Service Company to manufacture, install and service automatic temperature regulation systems for buildings. The Company was renamed to Johnson Controls, Inc. in 1974. In 1978, we acquired Globe-Union, Inc., a Wisconsin-based manufacturer of automotive batteries for both the replacement and original equipment markets. We entered the automotive seating industry in 1985 with the acquisition of Michigan-based Hoover Universal, Inc.

Our building efficiency business is a global market leader in designing, producing, marketing and installing integrated heating, ventilating and air conditioning (HVAC) systems, building management systems, controls, security and mechanical equipment. In addition, the building efficiency business provides technical services, energy management consulting and operations of entire real estate portfolios for the non-residential buildings market. We also provide residential air conditioning and heating systems.

Our automotive experience business is one of the world's largest automotive suppliers, providing innovative interior systems through our design and engineering expertise. Our technologies extend into virtually every area of the interior including seating and overhead systems, door systems, floor consoles, instrument panels, cockpits and integrated electronics. Customers include most of the world's major automakers.

Our power solutions business is a leading global supplier of lead-acid automotive batteries for virtually every type of passenger car, light truck and utility vehicle. We serve both automotive original equipment manufacturers and the general vehicle battery aftermarket. We offer Absorbent Glass Mat (AGM) and lithium-ion battery technologies to power hybrid vehicles.

**Table of Contents**

The following information should be read in conjunction with the September 30, 2010 consolidated financial statements and notes thereto, along with management's discussion and analysis of financial condition and results of operations included in the Company's 2010 Annual Report on Form 10-K. References in the following discussion and analysis to "Three Months" refer to the three months ended June 30, 2011 compared to the three months ended June 30, 2010, while references to "Year-to-Date" refer to the nine months ended June 30, 2011 compared to the nine months ended June 30, 2010.

**Outlook**

On July 20, 2011, the Company updated its fiscal 2011 fourth quarter guidance. The Company announced that it expects to earn \$0.75 per diluted share in the fourth fiscal quarter. The fourth quarter estimate includes charges of up to \$0.03 per diluted share for acquisition and related costs and up to \$0.02 per diluted share related to Japanese automotive original equipment production disruptions.

**Liquidity and Capital Resources**

The Company believes its capital resources and liquidity position at June 30, 2011 are adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, minimum pension contributions, debt maturities, announced acquisitions and any other potential acquisitions in fiscal 2011 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required. The Company currently manages its short-term debt position in the U.S. and euro commercial paper markets and bank loan markets. The Company continues to adjust its commercial paper maturities and issuance levels given market reactions to industry events and changes in the Company's credit rating. In the event the Company is unable to issue commercial paper, it would have the ability to draw on its \$2.5 billion revolving credit facility, which matures in February 2015. There were no draws on the revolving credit facility as of June 30, 2011. As such, the Company believes it has sufficient financial resources to fund operations and meet its obligations for the foreseeable future.

The Company's debt financial covenants require a minimum consolidated shareholders' equity attributable to Johnson Controls, Inc. of at least \$3.5 billion at all times and allow a maximum aggregated amount of 10% of consolidated shareholders' equity attributable to Johnson Controls, Inc. for liens and pledges. For purposes of calculating the Company's covenants, consolidated shareholders' equity attributable to Johnson Controls, Inc. is calculated without giving effect to (i) the application of Accounting Standards Codification (ASC) 715-60, "Defined Benefit Plans - Other Postretirement," or (ii) the cumulative foreign currency translation adjustment. As of June 30, 2011, consolidated shareholders' equity attributable to Johnson Controls, Inc. as defined per the Company's debt financial covenants was \$10.6 billion and there were no outstanding amounts for liens and pledges. The Company expects to remain in compliance with all covenants and other requirements set forth in its credit agreements and indentures for the foreseeable future. None of the Company's material debt agreements limit access to stated borrowing levels or require accelerated repayment in the event of a decrease in the Company's credit rating.

The key financial assumptions used in calculating the Company's pension liability are determined annually, or whenever plan assets and liabilities are re-measured as required under accounting principles generally accepted in the U.S., including the expected rate of return on our plan assets. In fiscal 2011, the Company believes the long-term rate of return will approximate 8.50% and 5.50% for U.S. and non-U.S. plans, respectively. Any differences between actual results and the expected long-term asset returns will be reflected in other comprehensive income and amortized to pension expense in future years. During the first nine months of fiscal 2011, the Company has made approximately \$234 million in total pension contributions. In total, the Company expects to contribute approximately \$400 million in cash to its defined benefit pension and postretirement health plans in fiscal 2011.

**Segment Analysis**

Management evaluates the performance of its business units based primarily on segment income, which is defined as income before income taxes and noncontrolling interests excluding net financing charges.

Effective October 1, 2010, the building efficiency business unit reorganized its management reporting structure to reflect its current business activities. Historical information has been revised to reflect the new building efficiency

**Table of Contents**

reportable segment structure. Refer to Note 17, Segment Information, to the financial statements for further information.

**Summary**

(in millions)	Three Months Ended			Nine Months Ended		
	June 30,			June 30,		
	2011	2010	Change	2011	2010	Change
Net sales	\$10,364	\$8,540	21%	\$30,045	\$25,265	19%
Segment income	512	496	3%	1,566	1,329	18%

**Three Months:**

The \$1.8 billion increase in consolidated net sales was primarily due to higher sales in the automotive experience business (\$612 million) as a result of increased industry production levels by the Company's major original equipment manufacturer (OEM) customers and current year business acquisitions, partially offset by the negative impact of the earthquake in Japan and related events; the favorable impact of foreign currency translation (\$528 million); higher sales in the building efficiency businesses (\$500 million) as a result of increased sales volumes across all segments; and higher sales in the power solutions business (\$184 million) as a result of a prior year business acquisition and the impact of higher lead costs on pricing.

The \$16 million increase in segment income was primarily due to higher volumes in the automotive experience and building efficiency businesses, favorable pricing and product mix net of lead and other commodity costs in the power solutions business, a warranty accrual adjustment due to favorable experience in the building efficiency other segment and the favorable impact of foreign currency translation (\$28 million), partially offset by higher overall selling, general and administrative expenses, costs related to business acquisitions and unfavorable pricing in the automotive experience Europe segment, non-recurring charges related to South America indirect taxes in the building efficiency other segment, and the negative impact of the earthquake in Japan and related events.

**Year-to-Date:**

The \$4.8 billion increase in consolidated net sales was primarily due to higher sales in the automotive experience business (\$2.3 billion) as a result of increased industry production levels by our major OEM customers and current year business acquisitions, partially offset by the negative impact of the earthquake in Japan and related events; higher sales in the building efficiency business (\$1.4 billion) as a result of increased sales volumes across all segments; higher sales in the power solutions business (\$718 million) as a result of increased sales volumes, a prior year business acquisition and the impact of higher lead costs on pricing; and the favorable impact of foreign currency translation (\$427 million).

The \$237 million increase in segment income was primarily due to higher volumes in the automotive experience, building efficiency and power solutions businesses, higher equity income in the automotive experience Asia segment, favorable pricing and product mix net of lead and other commodity costs in the power solutions business, a warranty accrual adjustment due to favorable experience in the building efficiency other segment and the favorable impact of foreign currency translation (\$29 million), partially offset by higher overall selling, general and administrative expenses net of an automotive experience legal settlement award; costs related to business acquisitions, unfavorable commercial settlements and pricing, higher operating costs and unfavorable purchasing costs in the automotive experience Europe segment; non-recurring charges related to South America indirect taxes in the building efficiency other segment; and the negative impact of the earthquake in Japan and related events.



**Table of Contents****Building Efficiency Net Sales**

(in millions)	Net Sales			Net Sales		
	Three Months Ended			Nine Months Ended		
	June 30,			June 30,		
	2011	2010	Change	2011	2010	Change
North America systems	\$ 633	\$ 551	15%	\$ 1,711	\$ 1,552	10%
North America service	601	531	13%	1,639	1,505	9%
Global workplace solutions	1,046	787	33%	3,053	2,404	27%
Asia	498	349	43%	1,334	988	35%
Other	1,115	999	12%	3,068	2,759	11%
	\$ 3,893	\$ 3,217	21%	\$ 10,805	\$ 9,208	17%

**Three Months:**

The increase in North America systems was primarily due to higher volumes of equipment and controls systems in the commercial construction and replacement markets (\$79 million) and the favorable impact of foreign currency translation (\$3 million).

The increase in North America service was primarily due to higher volumes, mainly driven by energy solutions (\$67 million) and the favorable impact of foreign currency translation (\$3 million).

The increase in global workplace solutions was primarily due to a net increase in services to new and existing customers (\$183 million) and the favorable impact of foreign currency translation (\$76 million).

The increase in Asia was primarily due to higher volumes of equipment and controls systems (\$100 million), the favorable impact of foreign currency translation (\$28 million) and higher service volumes including the negative impact of the Japan earthquake and related events (\$21 million).

The increase in other was primarily due to the favorable impact of foreign currency translation (\$66 million) and higher volumes in Middle East (\$65 million), Europe (\$8 million), Latin America (\$7 million) and other business areas (\$7 million), partially offset by lower volumes in unitary products (\$37 million).

**Year-to-Date:**

The increase in North America systems was primarily due to higher volumes of equipment and controls systems in the commercial construction and replacement markets (\$151 million) and the favorable impact of foreign currency translation (\$8 million).

The increase in North America service was primarily due to higher volumes, mainly driven by energy solutions (\$114 million), incremental sales due to a prior year business acquisition (\$12 million) and the favorable impact of foreign currency translation (\$8 million).

The increase in global workplace solutions was primarily due to a net increase in services to new and existing customers (\$551 million) and the favorable impact of foreign currency translation (\$98 million).

The increase in Asia was primarily due to higher volumes of equipment and controls systems (\$219 million), the favorable impact of foreign currency translation (\$65 million) and higher service volumes including the negative impact of the Japan earthquake and related events (\$62 million).

The increase in other was primarily due to higher volumes in Middle East (\$123 million), Latin America (\$104 million), Europe (\$35 million), unitary products (\$7 million) and other business areas (\$3 million),

and the favorable impact of foreign currency translation (\$37 million).

**Table of Contents****Building Efficiency Segment Income**

(in millions)	Segment Income			Segment Income		
	Three Months Ended			Nine Months Ended		
	June 30,			June 30,		
	2011	2010	Change	2011	2010	Change
North America systems	\$ 66	\$ 61	8%	\$ 169	\$ 144	17%
North America service	35	25	40%	69	50	38%
Global workplace solutions	7	6	17%	17	18	-6%
Asia	69	47	47%	178	119	50%
Other	30	51	-41%	45	67	-33%
	\$ 207	\$ 190	9%	\$ 478	\$ 398	20%

**Three Months:**

The increase in North America systems was primarily due to higher volumes (\$17 million), partially offset by higher selling, general and administrative expenses (\$12 million).

The increase in North America service was primarily due to prior year information technology implementation costs (\$15 million), higher volumes (\$11 million) and lower selling, general and administrative expenses (\$1 million), partially offset by unfavorable mix and margin rates (\$18 million).

The increase in global workplace solutions was primarily due to higher volumes (\$13 million) and the favorable impact of foreign currency translation (\$3 million), partially offset by unfavorable margin rates (\$9 million) and higher selling, general and administrative expenses (\$6 million).

The increase in Asia was primarily due to higher volumes (\$31 million) and the favorable impact of foreign currency translation (\$4 million), partially offset by higher selling, general and administrative expenses (\$11 million) and unfavorable margin rates (\$1 million).

The decrease in other was primarily due to non-recurring charges related to South America indirect taxes (\$29 million), higher selling, general and administrative expenses (\$12 million), distribution business costs (\$11 million) and unfavorable margin rates (\$5 million), partially offset by a warranty accrual adjustment due to favorable experience (\$20 million), higher volumes (\$11 million), higher equity income (\$4 million) and the favorable impact of foreign currency translation (\$1 million).

**Year-to-Date:**

The increase in North America systems was primarily due to higher volumes (\$30 million), favorable margin rates (\$14 million) and prior year reserves for existing customers (\$11 million), partially offset by higher selling, general and administrative expenses (\$29 million).

The increase in North America service was primarily due to prior year inventory adjustments and information technology implementation costs (\$43 million), higher volumes (\$24 million) and lower selling, general and administrative expenses (\$9 million), partially offset by unfavorable mix and margin rates (\$56 million).

The decrease in global workplace solutions was primarily due to unfavorable margin rates (\$23 million) and higher selling, general and administrative expenses (\$18 million), partially offset by higher volumes (\$36 million) and the favorable impact of foreign currency translation (\$4 million).

Edgar Filing: JOHNSON CONTROLS INC - Form 10-Q

The increase in Asia was primarily due to higher volumes (\$72 million) and the favorable impact of foreign currency translation (\$10 million), partially offset by higher selling, general and administrative expenses (\$22 million) and unfavorable margin rates (\$1 million).

The decrease in other was primarily due to higher selling, general and administrative expenses (\$45 million), non-recurring charges related to South America indirect taxes (\$29 million), unfavorable margin

**Table of Contents**

rates (\$24 million) and distribution business costs (\$11 million), partially offset by higher volumes (\$58 million), a warranty accrual adjustment due to favorable experience (\$20 million), higher equity income (\$8 million) and the favorable impact of foreign currency translation (\$1 million).

**Automotive Experience Net Sales**

(in millions)	Net Sales			Net Sales		
	Three Months Ended			Nine Months Ended		
	June 30,			June 30,		
	2011	2010	Change	2011	2010	Change
North America	\$ 1,772	\$ 1,740	2%	\$ 5,517	\$ 4,981	11%
Europe	2,800	2,033	38%	7,693	6,238	23%
Asia	546	440	24%	1,717	1,263	36%
	\$ 5,118	\$ 4,213	21%	\$ 14,927	\$ 12,482	20%

**Three Months:**

The increase in North America was primarily due to higher volumes to the Company's major OEM customers (\$275 million) and net favorable commercial settlements and pricing (\$13 million), partially offset by the negative impact of the Japan earthquake and related events (\$256 million).

The increase in Europe was primarily due to incremental sales due to business acquisitions (\$351 million), the favorable impact of foreign currency translation (\$279 million), and higher volumes and new customer awards including the negative impact of the Japan earthquake and related events (\$161 million), partially offset by net unfavorable commercial settlements and pricing (\$24 million).

The increase in Asia was primarily due to higher volumes and new customer awards including the negative impact of the Japan earthquake and related events (\$92 million) and the favorable impact of foreign currency translation (\$14 million).

**Year-to-Date:**

The increase in North America was primarily due to higher volumes to the Company's major OEM customers (\$774 million) and net favorable commercial settlements and pricing (\$18 million), partially offset by the negative impact of the Japan earthquake and related events (\$256 million).

The increase in Europe was primarily due to higher volumes and new customer awards including the negative impact of the Japan earthquake and related events (\$741 million), incremental sales due to business acquisitions (\$606 million) and the favorable impact of foreign currency translation (\$152 million), partially offset by net unfavorable commercial settlements and pricing (\$44 million).

The increase in Asia was primarily due to higher volumes and new customer awards including the negative impact of the Japan earthquake and related events (\$415 million) and the favorable impact of foreign currency translation (\$39 million).

**Table of Contents****Automotive Experience Segment Income**

(in millions)	Segment Income Three Months Ended			Segment Income Nine Months Ended		
	June 30,			June 30,		
	2011	2010	Change	2011	2010	Change
North America	\$ 67	\$ 97	-31%	\$ 328	\$ 293	12%
Europe	24	49	-51%	40	110	-64%
Asia	51	25	*	162	78	*
	\$ 142	\$ 171	-17%	\$ 530	\$ 481	10%

\* Measure not meaningful

**Three Months:**

The decrease in North America was primarily due to the negative impact of the earthquake in Japan and related events (\$59 million), higher selling, general and administrative expenses (\$23 million), higher engineering expenses (\$9 million) and higher operating and purchasing costs (\$3 million), partially offset by higher volumes (\$50 million), net favorable commercial settlements and pricing (\$12 million) and higher equity income (\$2 million).

The decrease in Europe was primarily due to costs related to business acquisitions (\$28 million), unfavorable pricing (\$24 million), higher selling, general and administrative expenses (\$24 million), higher engineering expenses (\$9 million), higher operating costs (\$4 million) and lower equity income (\$2 million), partially offset by higher volumes including the negative impact of the earthquake in Japan and related events (\$31 million), operating income of current year acquisitions (\$15 million), the favorable impact of foreign currency translation (\$14 million) and lower purchasing costs (\$6 million).

The increase in Asia was primarily due to higher volumes including the negative impact of the earthquake in Japan and related events (\$18 million), a prior year impairment charge on a headquarters building in Japan (\$11 million), lower purchasing costs (\$8 million), higher equity income mainly in China (\$4 million) and the favorable impact of foreign currency translation (\$1 million), partially offset by higher selling, general and administrative expenses (\$8 million), unfavorable pricing (\$6 million) and higher engineering expenses (\$2 million).

**Year-to-Date:**

The increase in North America was primarily due to higher volumes (\$137 million), net favorable commercial settlements and pricing (\$8 million), and lower operating and purchasing costs (\$7 million), partially offset by the negative impact of the earthquake in Japan and related events (\$59 million), higher selling, general and administrative expenses net of a legal settlement award (\$41 million), and higher engineering expenses (\$17 million).

The decrease in Europe was primarily due to costs related to business acquisitions (\$64 million), unfavorable commercial settlements and pricing (\$57 million), higher operating costs (\$38 million), higher engineering expenses (\$38 million), higher purchasing costs (\$24 million), higher selling, general and administrative expenses (\$24 million) and lower equity income (\$3 million), partially offset by higher volumes including the negative impact of the earthquake in Japan and related events (\$153 million), operating income of current year acquisitions (\$15 million) and the favorable impact of foreign currency translation (\$10 million).

The increase in Asia was primarily due to higher volumes including the negative impact of the earthquake in Japan and related events (\$67 million), higher equity income mainly in China (\$28 million), lower purchasing costs (\$11 million), a prior year impairment charge on a headquarters building in Japan (\$11 million), lower operating costs (\$7 million) and the favorable impact of foreign currency translation (\$2

**Table of Contents**

million), partially offset by higher selling, general and administrative expenses (\$22 million), higher engineering expenses (\$14 million) and unfavorable pricing (\$6 million).

**Power Solutions**

(in millions)	Three Months Ended			Nine Months Ended		
	June 30,			June 30,		
	2011	2010	Change	2011	2010	Change
Net sales	\$1,353	\$1,110	22%	\$4,313	\$3,575	21%
Segment income	163	135	21%	558	450	24%

**Three Months:**

Net sales increased primarily due to sales associated with a prior year business acquisition (\$81 million), the impact of higher lead costs on pricing (\$78 million), the favorable impact of foreign currency translation (\$59 million) and favorable price/product mix (\$33 million), partially offset by lower volumes including the negative impact of the earthquake in Japan and related events (\$8 million).

Segment income increased primarily due to favorable pricing and product mix net of lead and other commodity costs (\$65 million), income associated with a prior year business acquisition (\$8 million) and the favorable impact of foreign currency translation (\$5 million), partially offset by higher operating and transportation costs (\$26 million), higher selling, general and administrative expenses (\$20 million), lower sales volumes (\$2 million) and lower equity income (\$2 million).

**Year-to-Date:**

Net sales increased primarily due to sales associated with a prior year business acquisition (\$231 million), higher sales volumes including the negative impact of the earthquake in Japan and related events (\$226 million), the impact of higher lead costs on pricing (\$204 million), favorable price/product mix (\$57 million) and the favorable impact of foreign currency translation (\$20 million).

Segment income increased primarily due to favorable pricing and product mix net of lead and other commodity costs (\$88 million), higher sales volumes (\$57 million), income associated with a prior year business acquisition (\$24 million) and the favorable impact of foreign currency translation (\$2 million), partially offset by higher selling, general and administrative expenses (\$40 million) and higher operating and transportation costs (\$22 million).

**Net Financing Charges**

(in millions)	Three Months Ended			Nine Months Ended		
	June 30,			June 30,		
	2011	2010	Change	2011	2010	Change
Net financing charges	\$43	\$39	10%	\$124	\$117	6%

The increase in net financing charges for the three and nine month periods ended June 30, 2011 was primarily due to higher debt levels in the current periods.



**Table of Contents****Provision for Income Taxes**

(in millions)	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Tax provision	\$ 89	\$ 31	\$ 274	\$ 123
Effective tax rate	19.0%	6.8%	19.0%	10.2%
Estimated annual base effective tax rate	19.0%	18.0%	19.0%	18.0%

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 annual 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.

In the third quarter of fiscal 2010, the Company determined that it was more likely than not that the deferred tax assets within a Slovakia automotive entity would be utilized. Therefore, the Company released \$13 million of valuation allowances in the three month period ended June 30, 2010.

Based on published case law in a non-U.S. jurisdiction and the settlement of a tax audit during the third quarter of fiscal 2010, the Company released net \$38 million of reserves for uncertain tax positions, including interest and penalties.

In the second quarter of fiscal 2010, the Company recorded a noncash charge of approximately \$18 million due to law changes related to the tax treatment of the Medicare Part D subsidy due to passage of comprehensive health care reform legislation under the Patient Protection and Affordable Care Act (HR3590).

In the first quarter of fiscal 2010, the Company determined that it is more likely than not that a portion of the deferred tax assets in Brazil would be utilized. Therefore, the Company released \$69 million of valuation allowances. This was comprised of a \$93 million decrease in income tax expense offset by a \$24 million reduction in cumulative translation adjustments.

As a result of certain events related to prior year tax planning initiatives, during the first quarter of fiscal 2010, the Company increased the reserve for uncertain tax positions by \$31 million, including \$26 million of interest and penalties, which impacted the effective tax rate.

**Income Attributable to Noncontrolling Interests**

(in millions)	Three Months Ended			Nine Months Ended		
	June 30,			June 30,		
	2011	2010	Change	2011	2010	Change
Income attributable to noncontrolling interests	\$23	\$8	*	\$82	\$47	74%

\* Measure not meaningful

The increase in income attributable to noncontrolling interests for the three month period ended June 30, 2011 was primarily due to higher earnings at an automotive experience partially-owned affiliate in North America. The increase in income attributable to noncontrolling interests for the nine month period ended June 30, 2011 was primarily due to improved earnings at certain automotive experience partially-owned affiliates in North America and Asia and a power solutions partially-owned affiliate.

**Table of Contents****Net Income Attributable to Johnson Controls, Inc.**

(in millions)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Net income attributable to Johnson Controls, Inc.	\$357	\$418	-15%	\$1,086	\$1,042	4%

The decrease in net income attributable to Johnson Controls, Inc. for the three months ended June 30, 2011 was primarily due to higher overall selling, general and administrative expenses, costs related to business acquisitions and unfavorable pricing in the automotive experience Europe segment, non-recurring charges related to South America indirect taxes in the building efficiency other segment, the negative impact of the earthquake in Japan and related events, higher provision for income taxes and higher income attributable to noncontrolling interests, partially offset by higher volumes in the automotive experience and building efficiency businesses, favorable pricing and product mix net of lead and other commodity costs in the power solutions business, a warranty accrual adjustment due to favorable experience in the building efficiency other segment and the favorable impact of foreign currency translation.

The increase in net income attributable to Johnson Controls, Inc. for the nine months ended June 30, 2011 was primarily due to higher volumes in the automotive experience, building efficiency and power solutions businesses, higher equity income in the automotive experience Asia segment, favorable pricing and product mix net of lead and other commodity costs in the power solutions business, a warranty accrual adjustment due to favorable experience in the building efficiency other segment and the favorable impact of foreign currency translation, partially offset by higher overall selling, general and administrative expenses net of an automotive experience legal settlement award; costs related to business acquisitions, unfavorable commercial settlements and pricing, higher operating costs and unfavorable purchasing costs in the automotive experience Europe segment; non-recurring charges related to South America indirect taxes in the building efficiency other segment; the negative impact of the earthquake in Japan and related events; higher provision for income taxes; and higher income attributable to noncontrolling interests.

**Backlog**

Building efficiency's backlog relates to its control systems and service activity. At June 30, 2011, the unearned backlog was \$5.1 billion, or a 16% increase compared to June 30, 2010. Excluding the positive impact of foreign currency, the backlog was higher by 11% at June 30, 2011 compared to June 30, 2010. The North America service, Asia, other and North America systems segment backlog increased compared to prior year levels.

**Financial Condition***Working Capital*

(in millions)	June 30,		September 30,	Change	June 30,	
	2011	2010			2010	Change
Working capital	\$1,726	\$ 919		88%	\$ 905	91%
Accounts receivable	7,094	6,095		16%	5,452	30%
Inventories	2,451	1,786		37%	1,644	49%
Accounts payable	6,104	5,426		12%	4,874	25%

The Company defines working capital as current assets less current liabilities, excluding cash, short-term debt, the current portion of long-term debt and net assets of discontinued operations. Management believes that this measure of working capital, which excludes financing-related items and discontinued activities, provides a more useful measurement of the Company's operating performance.

**Table of Contents**

The increase in working capital as compared to September 30, 2010 and June 30, 2010 was primarily due to higher accounts receivable from higher sales, higher inventory levels to support higher sales and current year acquisitions, partially offset by higher accounts payable due to increased purchasing activity.

The Company's days sales in accounts receivable for the three months ended June 30, 2011 were 55, compared to 54 and 53 for the comparable periods ended September 30, 2010 and June 30, 2010, respectively. The increase in accounts receivable compared to September 30, 2010 and June 30, 2010 was primarily due to higher sales volumes in the current quarter compared to the comparable prior quarters. There has been no significant adverse change in the level of overdue receivables or changes in revenue recognition methods.

The Company's inventory turns for the three months ended June 30, 2011 were lower than the comparable periods ended September 30, 2010 and June 30, 2010 primarily due to higher inventory production to meet increased demand.

Days in accounts payable at June 30, 2011 were 69 days, a decrease from 74 days at September 30, 2010 and 70 days at June 30, 2010. The decrease was primarily due to the timing of supplier payments.

*Cash Flows*

(in millions)	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Cash provided by operating activities	\$ 393	\$ 427	\$ 561	\$ 1,448
Cash used by investing activities	(916)	(285)	(2,151)	(655)
Cash provided (used) by financing activities	463	(83)	1,357	(801)
Capital expenditures	(365)	(215)	(900)	(526)

The decrease in cash provided by operating activities for the three months ended June 30, 2011 was primarily due to lower net income attributable to Johnson Controls, Inc. and unfavorable working capital changes in inventory and accounts payable, partially offset by favorable working capital changes in accounts receivable and accrued income taxes. For the nine months ended June 30, 2011, the decrease in cash provided by operating activities was primarily due to unfavorable working capital changes in accounts receivable, inventory and accounts payable, partially offset by higher net income attributable to Johnson Controls, Inc. and favorable working capital changes in accrued income taxes.

The increase in cash used by investing activities for the three and nine months ended June 30, 2011 was primarily due to higher capital expenditures and acquisitions of businesses.

The increase in cash provided by financing activities for the three and nine months ended June 30, 2011 was primarily due to an increase in overall debt levels. Refer to Note 11, Debt and Financing Arrangements, to the financial statements for further discussion.

The increase in capital expenditures for the three and nine months ended June 30, 2011 primarily relates to capacity increases and vertical integration efforts in the power solutions business, increased investments to support the Company's customers' growth and to enhance the Company's strategic footprint primarily in Mexico and Southeast Asia, and standardization of information technology infrastructure in the automotive experience business.

*Deferred Taxes*

The Company reviews its deferred tax asset valuation allowances on a quarterly basis. In determining the potential need 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.

**Table of Contents**

The Company has certain subsidiaries, mainly located in France, Spain and the United Kingdom, which have generated operating and/or capital losses and, in certain circumstances, have limited loss carry forward periods. In accordance with ASC 740, *Income Taxes*, the Company is required to record a valuation allowance when it is more likely than not the Company will not utilize deductible amounts or net operating losses for each legal entity or consolidated group based on the tax rules in the applicable jurisdiction, evaluating both positive and negative historical evidences as well as expected future events and tax planning strategies.

It is reasonably possible that over the remainder of fiscal 2011, valuation allowances against deferred tax assets in certain jurisdictions of up to \$50 million may be released.

In the third quarter of fiscal 2010, 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 the deferred tax assets within a Slovakia automotive entity would be utilized. Therefore, the Company released \$13 million of valuation allowances in the three month period ended June 30, 2010.

In the first quarter of fiscal 2010, the Company determined that it is more likely than not that a portion of the deferred tax assets within the Brazil automotive entity would be utilized. Therefore, the Company released \$69 million of valuation allowances. This was comprised of a \$93 million decrease in income tax expense offset by a \$24 million reduction in cumulative translation adjustments.

*Long-Lived Assets*

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Company conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, *Impairment or Disposal of Long-Lived Assets*. ASC 360-10-15 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. If the undiscounted cash flows do not indicate the carrying amount of the asset group is recoverable, an impairment charge is measured as the amount by which the carrying amount of the asset group exceeds its fair value based on discounted cash flow analysis or appraisals.

At June 30, 2011, the Company concluded it did not have any triggering events requiring assessment of impairment of its long-lived assets.

In the third quarter of fiscal 2010, the Company concluded it had a triggering event requiring assessment of impairment of its long-lived assets due to the planned relocation of its headquarters building in Japan in the automotive experience Asia segment. As a result, the Company reviewed its long-lived assets for impairment and recorded an \$11 million impairment charge within selling, general and administrative expenses in the third quarter of fiscal 2010 related to the Asia automotive experience segment. The impairment was measured under a market approach utilizing an appraisal. The inputs utilized in the analysis are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, *Fair Value Measurements and Disclosures*.

In the second quarter of fiscal 2010, the Company concluded it had a triggering event requiring assessment of impairment of its long-lived assets due to planned plant closures for the North America automotive experience segment. These closures are a result of the Company's revised restructuring actions to the 2008 Plan. Refer to Note 8,

*Restructuring Costs*, to the financial statements for further information regarding the 2008 Plan. As a result, the Company reviewed its long-lived assets for impairment and recorded a \$19 million impairment charge in the second quarter of fiscal 2010 related to the North America automotive experience segment. This impairment charge was offset by a decrease in the Company's restructuring reserve related to the 2008 Plan due to lower employee severance and termination benefit cash payments than previously expected, as discussed further in Note 8. The impairment was measured under an income approach utilizing forecasted discounted cash flows for fiscal 2010 through 2014 to fair value the impaired assets. This method is consistent with the method the Company has employed in prior periods to value other long-lived assets. The inputs utilized in the discounted cash flow analysis are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, *Fair Value Measurements and Disclosures*.

**Table of Contents**

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Company reviews goodwill for impairment during the fourth fiscal quarter or more frequently if events or changes in circumstances indicate the asset might be impaired. The Company performs impairment reviews for its reporting units, which have been determined to be the Company's reportable segments or one level below the reportable segments in certain instances, using a fair-value method based on management's judgments and assumptions or third party valuations. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. In estimating the fair value, the Company uses multiples of earnings based on the average of historical, published multiples of earnings of comparable entities with similar operations and economic characteristics. In certain instances, the Company uses discounted cash flow analyses to further support the fair value estimates. The inputs utilized in the analyses are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, Fair Value Measurements and Disclosures. The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. The impairment testing performed by the Company in the fourth quarter of fiscal year 2010 indicated that the estimated fair value of each reporting unit substantially exceeded its corresponding carrying amount including recorded goodwill, and as such, no impairment existed at September 30, 2010. No reporting unit was determined to be at risk of failing step one of the goodwill impairment test.

At December 31, 2010, in conjunction with the preparation of its financial statements, the Company assessed goodwill for impairment in the building efficiency business unit due to the change in reportable segments as described in Note 17, Segment Information, to the financial statements. As a result, the Company performed impairment testing for goodwill under the new segment structure and determined that the estimated fair value of each reporting unit substantially exceeded its corresponding carrying amount including recorded goodwill, and as such, no impairment existed at December 31, 2010. No reporting unit was determined to be at risk of failing step one of the goodwill impairment test.

*Capitalization*

(in millions)	June 30, 2011	September 30, 2010	Change	June 30, 2010	Change
Total debt	\$ 5,176	\$ 3,389	53%	\$ 3,365	54%
Shareholders' equity attributable to Johnson Controls, Inc.	11,361	10,071	13%	9,395	21%
Total capitalization	\$ 16,537	\$ 13,460	23%	\$ 12,760	30%
Total debt as a % of total capitalization	31%	25%		26%	

The Company believes the percentage of total debt to total capitalization is useful to understanding the Company's financial condition as it provides a review of the extent to which the Company relies on external debt financing for its funding and is a measure of risk to its shareholders.

In fiscal 2008, the Company entered into new committed, revolving credit facilities totaling 350 million euro with 100 million euro expiring in May 2009, 150 million euro expiring in May 2011 and 100 million euro expiring in August 2011. In May 2009, the 100 million euro revolving facility expired and the Company entered into a new one year, committed, revolving credit facility in the amount of 50 million euro expiring in May 2010. In May 2010, the 50 million euro revolving facility expired and the Company entered into a new one year, committed, revolving facility in the amount of 50 million euro expiring in May 2011. As of June 30, 2011, only the original 100 million euro revolving credit facility remains. There were no draws outstanding on this facility as

of June 30, 2011.

In December 2009, the Company retired its 7 billion yen, three year, floating rate loan agreement that was scheduled to mature on January 18, 2011. The Company used cash to repay the note.

**Table of Contents**

In December 2009, the Company retired its 12 billion yen, three year, floating rate loan agreement that matured. The Company used cash to repay the note.

In December 2009, the Company retired approximately \$13 million in principal amount of its fixed rate notes that was scheduled to mature on January 15, 2011. The Company used cash to fund the repurchase.

In February 2010, the Company retired approximately \$30 million in principal amount of its fixed rate notes that was scheduled to mature on January 15, 2011. The Company used cash to fund the repurchase.

In February 2010, the Company retired its 18 billion yen, three year, floating rate loan agreement that was scheduled to mature on January 18, 2011. The Company used cash to repay the note.

In March 2010, the Company issued \$500 million aggregate principal amount of 5.0% senior unsecured fixed rate notes due in fiscal 2020. Net proceeds from the issue were used for general corporate purposes including the retirement of short-term debt.

In March 2010, the Company retired approximately \$31 million in principal amount of its fixed rate notes that was scheduled to mature on January 15, 2011. The Company used cash to fund the repurchase.

In May 2010, the Company retired approximately \$18 million in principal amount of its fixed rate notes scheduled to mature on January 15, 2011. The Company used cash to fund the repurchases.

In September 2010, the Company entered into a new, \$100 million committed revolving facility scheduled to mature in December 2011. In February 2011, the Company retired the committed facility. There were no draws on the facility.

In November 2010, the Company repaid debt of \$82 million which was acquired as part of an acquisition in the first quarter of fiscal 2011. The Company used cash to repay the debt.

In January 2011, the Company retired \$654 million in principal amount, plus accrued interest, of its 5.25% fixed rate notes that matured on January 15, 2011. The Company used cash to fund the payment.

In February 2011, the Company issued \$350 million aggregate principal amount of floating rate senior unsecured notes due in fiscal 2014, \$450 million aggregate principal amount of 1.75% senior unsecured fixed rate notes due in fiscal 2014, \$500 million aggregate principal amount of 4.25% senior unsecured fixed rate notes due in fiscal 2021 and \$300 million aggregate principal amount of 5.70% senior unsecured fixed rate notes due in fiscal 2041. Aggregate net proceeds of \$1.6 billion from the issues were used for general corporate purposes including the retirement of short-term debt.

In February 2011, the Company entered into a 6-year, 100 million euro, floating rate loan scheduled to mature in February 2017. Proceeds from the facility were used for general corporate purposes.

In February 2011, the Company replaced its \$2.05 billion committed five-year credit facility, scheduled to mature in December 2011, with a \$2.5 billion committed four-year credit facility scheduled to mature in February 2015. The facility is used to support the Company's outstanding commercial paper. At June 30, 2011, there were no draws on the facility.

In April 2011, a total of 157,820 equity units, which had a purchase contract settlement date of March 31, 2012, were early exercised. As a result, the Company issued 766,673 shares of Johnson Controls, Inc. common stock



and approximately \$8 million of 11.50% notes due 2042.

The Company also selectively makes use of short-term credit lines. The Company estimates that, as of June 30, 2011, it could borrow up to \$1.8 billion at its current debt ratings on committed credit lines.

The Company believes its capital resources and liquidity position at June 30, 2011 are adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, minimum pension contributions, debt maturities, announced acquisitions and any other potential acquisitions in fiscal 2011 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required. The Company currently manages its short-term debt position in the U.S. and euro commercial paper markets and bank loan markets. In the event the Company is unable to issue commercial paper, it would have the ability to draw on its \$2.5 billion revolving credit facility, which matures in February 2015. There were no

**Table of Contents**

draws on the revolving credit facility as of June 30, 2011. As such, the Company believes it has sufficient financial resources to fund operations and meet its obligations for the foreseeable future.

The Company's debt financial covenants require a minimum consolidated shareholders' equity attributable to Johnson Controls, Inc. of at least \$3.5 billion at all times and allow a maximum aggregated amount of 10% of consolidated shareholders' equity attributable to Johnson Controls, Inc. for liens and pledges. For purposes of calculating the Company's covenants, consolidated shareholders' equity attributable to Johnson Controls, Inc. is calculated without giving effect to (i) the application of ASC 715-60, Defined Benefit Plans- Other Postretirement, or (ii) the cumulative foreign currency translation adjustment. As of June 30, 2011, consolidated shareholders' equity attributable to Johnson Controls, Inc. as defined per the Company's debt financial covenants was \$10.6 billion and there were no outstanding amounts for liens and pledges. The Company expects to remain in compliance with all covenants and other requirements set forth in its credit agreements and indentures for the foreseeable future. None of the Company's debt agreements limit access to stated borrowing levels or require accelerated repayment in the event of a decrease in the Company's credit rating.

**New Accounting Standards**

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 shareholder's equity instead must be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Also, reclassification adjustments for items that are reclassified from other comprehensive income to net income must be presented on the face of the financial 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 will be effective for the Company in the second quarter of fiscal 2012 (January 1, 2012). The Company has assessed the updated guidance and expects adoption to have no impact on the Company's consolidated financial condition and results of operations. Refer to Note 15, Fair Value Measurements, to the financial statements for disclosures surrounding the Company's fair value measurements.

In December 2009, the FASB issued ASU No. 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU No. 2009-17 changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. This statement was effective for the Company beginning in the first quarter of fiscal 2011 (October 1, 2010). The adoption of this guidance had no impact on the Company's consolidated financial condition and results of operations. Refer to Note 1, Financial Statements, to the financial statements for further discussion.

In October 2009, the FASB issued ASU No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements - A Consensus of the FASB Emerging Issues Task Force. ASU No. 2009-13 provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This guidance eliminates the use of the residual method allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. The amendments in this ASU also expand the disclosures related to a vendor's multiple-deliverable revenue arrangements. The Company adopted ASU No. 2009-13 on October 1, 2010. The adoption of this guidance did not



**Table of Contents**

have a significant impact on the Company's consolidated financial condition and results of operations, and appropriate disclosures have been included herein.

**Other Financial Information**

The interim financial information included in this Quarterly Report on Form 10-Q has not been audited by PricewaterhouseCoopers LLP (PwC). PwC has, however applied limited review procedures in accordance with professional standards for reviews of interim financial information. Accordingly, you should restrict your reliance on their reports on such information. PwC is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the interim financial information because such reports do not constitute reports or parts of the registration statements prepared or certified by PwC within the meaning of Sections 7 and 11 of the Securities Act of 1933.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of June 30, 2011, the Company had not experienced any adverse changes in market risk exposures that materially affected the quantitative and qualitative disclosures presented in the Company's Annual Report on Form 10-K for the year ended September 30, 2010.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon their evaluation of these disclosure controls and procedures, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of June 30, 2011 to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms, and to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

**Changes in Internal Control Over Financial Reporting**

Except as noted below, there have been no changes in the Company's internal control over financial reporting during the three months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

During the three months ended June 30, 2011, the Company completed the implementation of a global financial consolidations software system, and maintained and monitored appropriate internal controls during the implementation period. The Company believes that its internal control environment has been enhanced as a result of this implementation.

The Company is also undertaking the implementation of new enterprise resource planning (ERP) systems in certain businesses, which will occur over a period of several years. As the phased roll-out of the new ERP systems occurs, the Company may experience changes in its internal control over financial reporting. No significant changes were made to the Company's current internal control over financial reporting as a result of the implementation of the new ERP systems during the three months ended June 30, 2011.

**Table of Contents****PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

As noted in Item 1 to the Company's Annual Report on Form 10-K for the year ended September 30, 2010, liabilities potentially arise globally under various environmental laws and worker safety laws for activities that are not in compliance with such laws and for the cleanup of sites where Company-related substances have been released into the environment.

Currently, the Company is responding to allegations that it is responsible for performing environmental remediation, or for the repayment of costs spent by governmental entities or others performing remediation, at approximately 43 sites in the United States. Many of these sites are landfills used by the Company in the past for the disposal of waste materials; others are secondary lead smelters and lead recycling sites where the Company returned lead-containing materials for recycling; a few involve the cleanup of Company manufacturing facilities; and the remaining fall into miscellaneous categories. The Company may face similar claims of liability at additional sites in the future. Where potential liabilities are alleged, the Company pursues a course of action intended to mitigate them.

The Company accrues for potential environmental losses in a manner consistent with accounting principles generally accepted in the United States; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. Reserves for environmental costs recorded in the condensed consolidated statements for financial position were \$42 million, \$47 million and \$38 million at June 30, 2011, September 30, 2010 and June 30, 2010, respectively. The Company reviews the status of its environmental sites on a quarterly basis and adjusts its reserves accordingly. Such potential liabilities accrued by the Company do not take into consideration possible recoveries of future insurance proceeds. They do, however, take into account the likely share other parties will bear at remediation sites. It is difficult to estimate the Company's ultimate level of liability at many remediation sites due to the large number of other parties that may be involved, the complexity of determining the relative liability among those parties, the uncertainty as to the nature and scope of the investigations and remediation to be conducted, the uncertainty in the application of law and risk assessment, the various choices and costs associated with diverse technologies that may be used in corrective actions at the sites, and the often quite lengthy periods over which eventual remediation may occur. Nevertheless, the Company does not currently believe that any claims, penalties or costs in connection with known environmental matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

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

**ITEM 1A. RISK FACTORS**

There have been no material changes to the disclosure regarding risk factors presented in Item 1A to the Company's Annual Report on Form 10-K for the year ended September 30, 2010, as updated in Part II, Item 1A of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, except for the update of the risk factor presented below within the Automotive Experience Risks.

**We could be negatively impacted by the recent earthquake and tsunami in Japan and related events.**

The Company has encountered adverse consequences from the occurrence of the earthquake and tsunami in Japan, and these events could continue to have a negative impact on our customers, supply chain, our ability to deliver products, the cost of our products and the demand for our products. Although the Company's operations in Japan did not experience significant disruptions from the earthquake and related events, our suppliers and customers, and other suppliers of our customers, have experienced, and may continue to experience, disruptions to their operations.

Because of the global integration of the automotive industry (a vehicle manufactured on one continent may contain parts produced on other continents), its just-in-time delivery schedules and low levels of parts inventory, a disruption impacting only a single critical supplier to the industry may impact the whole industry. Several of our

**Table of Contents**

suppliers and customers, and other suppliers of our customers, in Japan and elsewhere have announced that their production is operating at a reduced capacity, generally because of either damage to their plants or the inability of their suppliers to deliver the necessary components. These factors could have a material adverse effect on our business, our results of operations and our financial condition.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In September 2006, the Company's Board of Directors authorized a stock repurchase program to acquire up to \$200 million of the Company's outstanding common stock. Stock repurchases under this program may be made through open market, privately negotiated transactions or otherwise at times and in such amounts as Company management deems appropriate. The stock repurchase program does not have an expiration date and may be amended or terminated by the Board of Directors at any time without prior notice.

The Company entered into an Equity Swap Agreement, dated March 18, 2004 and amended March 3, 2006 and May 16, 2006, with Citibank, N.A. (Citibank). The Company settled the Equity Swap Agreement at the beginning of the second quarter of fiscal 2009. The Company entered into a new Swap Agreement, dated March 13, 2009 (Swap Agreement), at the end of the second quarter of fiscal 2009. The Company selectively uses equity swaps to reduce market risk associated with 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.

In connection with the Swap Agreement, Citibank may purchase unlimited shares of the Company's stock in the market or in privately negotiated transactions. The Company disclaims that Citibank is an affiliated purchaser of the Company as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act or that Citibank is purchasing any shares for the Company. The Swap Agreement has no stated expiration date. The net effect of the change in fair value of the Swap Agreement and the change in equity compensation liabilities was not material to the Company's earnings for the three months ended June 30, 2011.

**Table of Contents**

The following table presents information regarding the repurchase of the Company's common stock by the Company as part of the publicly announced program and purchases of the Company's common stock by Citibank in connection with the Swap Agreement during the three months ended June 30, 2011.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased under the Programs
4/1/11 - 4/30/11 Purchases by Company (1)				\$ 102,394,713
5/1/11 - 5/31/11 Purchases by Company (1)				\$ 102,394,713
6/1/11 - 6/30/11 Purchases by Company (1)				\$ 102,394,713
4/1/11 - 4/30/11 Purchases by Citibank				NA
5/1/11 - 5/31/11 Purchases by Citibank				NA
6/1/11 - 6/30/11 Purchases by Citibank				NA

(1) The repurchases of the Company's common stock by the Company are intended to partially offset dilution related to our stock option and restricted stock equity compensation plans and are treated as repurchases of Company common stock for purposes of this disclosure.

**ITEM 6. EXHIBITS**

Reference is made to the separate exhibit index contained on page 57 filed herewith.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JOHNSON CONTROLS, INC.

Date: August 3, 2011

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

56

---



**Table of Contents**

**JOHNSON CONTROLS, INC.**  
**Form 10-Q**  
**INDEX TO EXHIBITS**

Exhibit No.	Description
15	Letter of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, dated August 3, 2011, relating to Financial Information.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Johnson Controls, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Financial Position, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements, furnished herewith.