

JOHNSON CONTROLS INC

Form 10-Q/A

December 22, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-Q/A  
(Amendment No. 2)**

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

**For the quarterly period ended March 31, 2005**

**OR**

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

**For the transition period from \_\_\_\_\_ to**

**Commission File Number 1-5097  
JOHNSON CONTROLS, INC.**

(Exact name of registrant as specified in its charter)

Wisconsin  
(State of Incorporation) 39-0380010  
(I.R.S. Employer Identification No.)  
5757 North Green Bay Avenue, P.O. Box 591, Milwaukee, WI 53201  
(Address of principal executive office)

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

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

Yes  No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No   
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 31, 2005
Common Stock \$.04 1/6 Par Value	192,037,907

**JOHNSON CONTROLS, INC.**  
**FORM 10-Q/A**  
**March 31, 2005**  
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**EXPLANATORY NOTE**

This Form 10-Q/A (Amendment No. 2) is being filed to amend and restate the financial statements and certain disclosure items related to the deconsolidation of a North American joint venture in response to comments raised by the Staff of the Securities and Exchange Commission and to provide certain disclosure items related to guarantor financial information in the Form 10-Q for the three and six month periods ended March 31, 2005 (the 2005 Second Quarter Form 10-Q ), which was originally filed with the Securities and Exchange Commission on May 6, 2005, and amended on August 9, 2005 (the 2005 Second Quarter Form 10-Q/A ).

Revising the financial statements also requires Johnson Controls, Inc. (the Company) to restate certain information that is disclosed in the notes to the Consolidated Financial Statements, primarily Note 2 Inventories, Note 5 Research and Development, Note 9 Goodwill and Other Intangible Assets, Note 11 Segment Information and Note 12 Income Taxes. In addition, the Company has added Note 15 Deconsolidation of a Joint Venture (Restated) and Note 16 Guarantor Financial Statements (Restated). Management's Discussion and Analysis of Financial Condition and Results of Operations was also amended to reflect the revised financial statements.

The Company has determined that a control deficiency related to the Company's misapplication of SFAS 94, Consolidation of All Majority-Owned Subsidiaries giving rise to the restatement constituted a material weakness in our internal control over financial reporting. The Company has also determined that a control deficiency over the Company's identification and reporting of the required guarantor subsidiary financial statement disclosures in the Company's financial statements as required by Rule 3-10 of Regulation S-X constituted a material weakness in our internal control over financial reporting. The Company rescinded all intercompany upstream guarantees and replaced them with alternative intercompany arrangements in November 2005. See Item 4. Controls and Procedures in Part I of this Form 10-Q/A for additional information.

The restatement related to the deconsolidation of the North American joint venture results in changes to certain financial statement line items as reported in the Consolidated Financial Statements. Revenues and expenses previously recorded in certain consolidated financial statement line items are now reported on a net basis as Equity income in the Consolidated Statement of Income and the Company's net investment in the joint venture is reported in the Investments in partially-owned affiliates line in the Consolidated Statement of Financial Position. Neither restatement impacts previously reported income from continuing operations, net income or earnings per share.

This amendment presents the 2005 Second Quarter Form 10-Q/A, as amended, in its entirety, but does not modify or update the disclosure in the 2005 Second Quarter Form 10-Q/A in any way other than as required to reflect the changes discussed above and does not reflect events occurring after the original filing of the 2005 Second Quarter Form 10-Q on May 6, 2005.

**Table of Contents****Part I FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**JOHNSON CONTROLS, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
(in millions, unaudited)

	March 31, 2005	Restated September 30, 2004	March 31, 2004
<b>ASSETS</b>			
Cash and cash equivalents	\$ 244.9	\$ 99.2	\$ 169.8
Accounts receivable net	4,201.9	3,815.9	3,459.4
Costs and earnings in excess of billings on uncompleted contracts	320.2	271.8	304.7
Inventories	889.7	858.3	783.7
Assets of discontinued operations		579.8	566.2
Other current assets	941.9	725.5	778.2
Current assets	6,598.6	6,350.5	6,062.0
Property, plant and equipment net	3,384.4	3,333.9	3,010.0
Goodwill net	3,674.4	3,566.2	3,166.6
Other intangible assets net	286.7	290.9	263.8
Investments in partially-owned affiliates	423.4	447.6	576.8
Other noncurrent assets	847.3	769.3	784.6
Total assets	\$ 15,214.8	\$ 14,758.4	\$ 13,863.8
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Short-term debt	\$ 382.4	\$ 813.3	\$ 657.6
Current portion of long-term debt	218.9	226.7	32.1
Accounts payable	3,604.6	3,425.3	3,298.8
Accrued compensation and benefits	674.1	592.4	520.1
Accrued income taxes		48.6	
Billings in excess of costs and earnings on uncompleted contracts	233.2	197.2	205.2
Liabilities of discontinued operations		228.5	197.4
Other current liabilities	1,067.3	888.8	891.4
Current liabilities	6,180.5	6,420.8	5,802.6
Long-term debt	1,664.6	1,630.6	1,888.9
Postretirement health and other benefits	153.6	164.1	166.6
Minority interests in equity of subsidiaries	142.8	121.5	102.5
Other noncurrent liabilities	1,381.7	1,215.1	1,133.9
Shareholders equity	5,691.6	5,206.3	4,769.3

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Total liabilities and shareholders' equity	\$ 15,214.8	\$ 14,758.4	\$ 13,863.8
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The accompanying notes are an integral part of the financial statements.

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**JOHNSON CONTROLS, INC.**  
**CONSOLIDATED STATEMENT OF INCOME**  
(in millions, except per share data; unaudited)

	Three Months Ended March 31, Restated		Six Months Ended March 31, Restated	
	2005	2004	2005	2004
Net sales				
Products and systems*	\$ 6,088.6	\$ 5,364.6	\$ 11,902.4	\$ 10,623.8
Services*	810.8	757.3	1,614.8	1,470.8
	6,899.4	6,121.9	13,517.2	12,094.6
Cost of sales				
Products and systems	5,410.8	4,704.0	10,561.6	9,286.0
Services	661.2	629.1	1,322.8	1,209.5
	6,072.0	5,333.1	11,884.4	10,495.5
Gross profit	827.4	788.8	1,632.8	1,599.1
Selling, general and administrative expenses	574.5	568.6	1,160.6	1,150.0
Restructuring costs	210.0	82.4	210.0	82.4
Japanese pension gain		(84.4)		(84.4)
Operating income	42.9	222.2	262.2	451.1
Interest income	2.7	3.6	6.8	5.4
Interest expense	(30.4)	(26.7)	(61.0)	(53.8)
Equity income	18.4	23.0	39.7	46.1
Miscellaneous net	(11.8)	(6.3)	(16.0)	(31.3)
Other income (expense)	(21.1)	(6.4)	(30.5)	(33.6)
Income from continuing operations before income taxes and minority interests	21.8	215.8	231.7	417.5
Income tax (benefit) provision	(38.0)	56.5	0.9	92.7
Minority interests in net earnings of subsidiaries	6.0	11.8	20.8	21.8
Income from continuing operations	53.8	147.5	210.0	303.0
Income from discontinued operations, net of income taxes	3.9	10.2	16.1	19.2
	144.8		144.8	

Gain on sale of discontinued operations, net of  
income taxes

Net income	\$	202.5	\$	157.7	\$	370.9	\$	322.2
Earnings available for common shareholders	\$	202.5	\$	157.7	\$	370.9	\$	320.4
Earnings per share from continuing operations								
Basic	\$	0.28	\$	0.78	\$	1.10	\$	1.63
Diluted	\$	0.28	\$	0.77	\$	1.08	\$	1.57
Earnings per share								
Basic	\$	1.06	\$	0.83	\$	1.94	\$	1.73
Diluted	\$	1.04	\$	0.82	\$	1.91	\$	1.67

\* Products and systems consist of Seating & Interiors products and systems, Battery Group products and Controls Group installed systems. Services are Controls Group technical and facility management services.

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



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**JOHNSON CONTROLS, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in millions; unaudited)

	Three Months Ended March 31, Restated		Six Months Ended March 31, Restated	
	2005	2004	2005	2004
<b>Operating Activities</b>				
Net income	\$ 202.5	\$ 157.7	\$ 370.9	\$ 322.2
Gain and income from discontinued operations	(148.7)	(10.2)	(160.9)	(19.2)
Income from continuing operations	53.8	147.5	210.0	303.0
Adjustments to reconcile income from continuing operations to cash provided by operating activities				
Depreciation	155.5	136.5	307.3	270.9
Amortization of intangibles	5.6	4.5	11.5	9.4
Equity in earnings of partially-owned affiliates, net of dividends received	(6.8)	(22.7)	(27.7)	(25.2)
Minority interests in net earnings of subsidiaries	6.0	11.8	20.8	21.8
Deferred income taxes	(97.1)	47.0	(97.5)	54.2
Japanese pension settlement gain		(84.4)		(84.4)
Non cash restructuring costs	45.8	6.6	45.8	6.6
Other	(4.5)	(14.9)	(5.0)	(12.2)
Changes in working capital, excluding acquisitions and divestitures of businesses				
Receivables	(460.1)	(266.8)	(266.0)	(77.9)
Inventories	9.5	(2.2)	2.6	15.5
Other current assets	(31.2)	(34.2)	(89.7)	(21.4)
Restructuring reserves	164.2	65.7	164.2	65.7
Accounts payable and accrued liabilities	410.4	316.6	149.4	(119.9)
Accrued income taxes	(74.6)	(5.0)	(64.9)	31.7
Billings in excess of costs and earnings on uncompleted contracts	16.4	(1.4)	31.5	12.2
Cash provided by operating activities of continuing operations	192.9	304.6	392.3	450.0
<b>Investing Activities</b>				
Capital expenditures	(142.5)	(198.0)	(282.6)	(380.2)
Sale of property, plant and equipment	3.4	9.6	7.6	18.5
Acquisition of business, net of cash acquired			(33.1)	(36.6)
Proceeds from sale of discontinued operations	687.2		687.2	
Recoverable customer engineering expenditures	(8.7)	5.4	(12.0)	(43.7)
Changes in long-term investments	35.8	(7.2)	28.1	(2.7)

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Cash provided (used) by investing activities	575.2	(190.2)	395.2	(444.7)
<b>Financing Activities</b>				
(Decrease) increase in short-term debt net	(522.7)	(61.5)	(434.2)	515.4
Increase in long-term debt	10.1	67.1	13.5	117.0
Repayment of long-term debt	(21.6)	(106.7)	(98.3)	(530.6)
Payment of cash dividends	(92.1)	(79.9)	(95.7)	(85.3)
Other	18.0	23.2	30.1	38.0
Cash (used) provided by financing activities	(608.3)	(157.8)	(584.6)	54.5
Cash (used) provided by discontinued operations	(22.8)	0.2	(57.2)	26.1
<b>Increase (decrease) in cash and cash equivalents</b>	<b>\$ 137.0</b>	<b>(\$43.2)</b>	<b>\$ 145.7</b>	<b>\$ 85.9</b>

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

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****1. Financial Statements**

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These condensed financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Amended Annual Report on Form 10-K/A for the year ended September 30, 2004. The September 30, 2004 Consolidated Statement of Financial Position is derived from the audited financial statements, adjusted for discontinued operations (See Note 3). The results of operations for the three and six month periods ended March 31, 2005 are not necessarily indicative of the results which may be expected for the Company's 2005 fiscal year because of seasonal and other factors. Certain prior period amounts have been reclassified to conform to the current period's presentation.

**2. Inventories**

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

(in millions)	March 31, 2005	September 30, 2004	March 31, 2004
Raw materials and supplies	\$ 473.1	\$ 460.9	\$ 430.0
Work-in-process	143.7	136.7	115.6
Finished goods	301.1	288.5	264.8
FIFO inventories	917.9	886.1	810.4
LIFO reserve	(28.2)	(27.8)	(26.7)
Inventories	\$ 889.7	\$ 858.3	\$ 783.7

**3. Discontinued Operations**

In February 2005, the Company completed the sale of its engine electronics business, included in Seating & Interiors Europe to Valeo for approximately 323 million, or about \$427 million. This non-core business was acquired in fiscal 2002 from Sagem SA. The sale of the engine electronics business resulted in a gain of approximately \$90 million (\$57 million after tax), net of related costs.

In March 2005, the Company completed the sale of its Johnson Controls World Services, Inc. subsidiary (World Services), included in the Controls Group segment, to IAP Worldwide Services, Inc. for approximately \$268 million, of which \$260 million was received in the current period. The remaining proceeds of the sale are expected to be received in the third quarter of fiscal 2005. This non-strategic business was acquired in fiscal 1989 from Pan Am Corporation. The sale of World Services resulted in a gain of approximately \$144 million (\$88 million after tax), net of related costs and subject to certain adjustments.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)**

The following summarizes the revenues, expenses and related gain on sale of the discontinued operations:

(in millions)	Engine Electronics (1)				Johnson Controls World Services, Inc. (2)			
	Three Months		Six Months		Three Months		Six Months	
	Ended March 31, 2005	2004	Ended March 31, 2005	2004	Ended March 31, 2005	2004	Ended March 31, 2005	2004
Net sales	\$ 80.9	\$ 109.4	\$ 199.7	\$ 200.6	\$ 185.3	\$ 204.2	\$ 340.4	\$ 354.8
Cost of sales	72.4	93.8	172.3	169.4	175.1	187.8	318.6	328.0
Gross profit	8.5	15.6	27.4	31.2	10.2	16.4	21.8	26.8
Selling, general and administrative expenses	10.1	11.5	16.8	18.8	3.7	4.2	8.1	8.6
Operating (loss) income	(1.6)	4.1	10.6	12.4	6.5	12.2		