

JOHNSON CONTROLS INC

Form 10-Q

May 06, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

39-0380010 *(State of Incorporation) (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 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.

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Class

Outstanding at March 31, 2005

Common Stock \$.04 1/6 Par Value

192,037,907

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Certifications

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(in millions, unaudited)

	March 31, 2005	September 30, 2004	March 31, 2004
ASSETS			
Cash and cash equivalents	\$ 350.2	\$ 169.5	\$ 226.4
Accounts receivable - net	4,346.3	3,992.1	3,607.4
Costs and earnings in excess of billings on uncompleted contracts	320.2	271.8	304.7
Inventories	920.2	885.8	807.8
Assets of discontinued operations		579.8	566.2
Other current assets	970.7	774.5	802.9
Current assets	6,907.6	6,673.5	6,315.4
Property, plant and equipment - net	3,511.4	3,463.5	3,132.4
Goodwill - net	3,686.9	3,578.7	3,179.1
Other intangible assets - net	286.8	291.0	264.0
Investments in partially-owned affiliates	278.2	314.9	450.6
Other noncurrent assets	847.4	769.2	783.9
Total assets	\$ 15,518.3	\$ 15,090.8	\$ 14,125.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term debt	\$ 382.4	\$ 813.3	\$ 657.9
Current portion of long-term debt	219.0	226.8	32.2
Accounts payable	3,731.4	3,608.4	3,445.2
Accrued compensation and benefits	687.8	606.2	531.5
Accrued income taxes		47.1	
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	1,077.4	875.6	855.2
Current liabilities	6,331.2	6,603.1	5,924.6
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	289.7	267.2	242.5
Other noncurrent liabilities	1,387.6	1,219.5	1,133.5

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Shareholders' equity	5,691.6	5,206.3	4,769.3
Total liabilities and shareholders' equity	\$ 15,518.3	\$ 15,090.8	\$ 14,125.4

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

Table of Contents**CONSOLIDATED STATEMENT OF INCOME**

(in millions, except per share data; unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Net sales				
Products and systems*	\$ 6,289.8	\$ 5,549.2	\$ 12,306.2	\$ 10,978.0
Services*	810.8	757.3	1,614.8	1,470.8
	7,100.6	6,306.5	13,921.0	12,448.8
Cost of sales				
Products and systems	5,588.5	4,859.6	10,916.1	9,586.2
Services	661.2	629.1	1,322.8	1,209.4
	6,249.7	5,488.7	12,238.9	10,795.6
Gross profit	850.9	817.8	1,682.1	1,653.2
Selling, general and administrative expenses	580.9	575.2	1,173.9	1,163.1
Restructuring costs	210.0	82.4	210.0	82.4
Japanese pension gain		(84.4)		(84.4)
Operating income	60.0	244.6	298.2	492.1
Interest income	3.1	3.8	7.5	5.7
Interest expense	(30.7)	(26.8)	(61.6)	(54.0)
Equity income	12.5	16.3	28.3	34.1
Miscellaneous - net	(10.9)	(6.2)	(15.5)	(30.9)
Other income (expense)	(26.0)	(12.9)	(41.3)	(45.1)
Income from continuing operations before income taxes and minority interests	34.0	231.7	256.9	447.0
Income tax (benefit) provision	(31.9)	65.5	13.8	109.8
Minority interests in net earnings of subsidiaries	12.1	18.7	33.1	34.2
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
Gain on sale of discontinued operations, net of income taxes	144.8		144.8	
Net income	\$ 202.5	\$ 157.7	\$ 370.9	\$ 322.2

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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 Automotive Group products and systems 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.

Table of Contents**JOHNSON CONTROLS, INC.****CONSOLIDATED STATEMENT OF CASH FLOWS**

(in millions; unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Operating Activities				
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	162.4	141.8	320.4	281.2
Amortization of intangibles	5.6	4.5	11.6	9.4
Equity in earnings of partially-owned affiliates, net of dividends received	(10.6)	(16.0)	(26.0)	(20.4)
Minority interests in net earnings of subsidiaries	12.1	18.7	33.1	34.2
Deferred income taxes	(95.2)	45.5	(95.6)	52.7
Japanese pension settlement gain		(84.4)		(84.4)
Non cash restructuring costs	45.8	6.6	45.8	6.6
Other	4.6	(14.0)	3.3	(11.3)
Changes in working capital, excluding acquisitions and divestitures of businesses				
Receivables	(481.9)	(292.5)	(234.2)	(125.7)
Inventories	13.9	3.3	(0.4)	13.1
Other current assets	(24.9)	(26.6)	(65.7)	3.9
Restructuring reserves	164.2	65.7	164.2	65.7
Accounts payable and accrued liabilities	397.7	295.6	114.1	(74.8)
Accrued income taxes	(81.9)	(10.0)	(65.2)	33.7
Billings in excess of costs and earnings on uncompleted contracts	16.4	(1.4)	31.5	12.2
Cash provided by operating activities	182.0	284.3	446.9	499.1
Investing Activities				
Capital expenditures	(149.5)	(211.0)	(292.0)	(408.3)
Sale of property, plant and equipment	3.7	9.6	7.9	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)	28.2	(2.0)

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Cash provided (used) by investing activities	568.5	(203.2)	386.2	(472.1)
Financing Activities				
(Decrease) increase in short-term debt - net	(522.7)	(61.3)	(434.2)	506.0
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	8.3	23.3	19.5	30.1
Cash (used) provided by financing activities	(618.0)	(157.5)	(595.2)	37.2
Cash (used) provided by discontinued operations	(22.8)	0.2	(57.2)	26.1
Increase (decrease) in cash and cash equivalents	\$ 109.7	(\$76.2)	\$ 180.7	\$ 90.3

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 Annual Report to Shareholders 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	\$ 497.3	\$ 483.8	\$ 449.4
Work-in-process	144.5	137.0	116.8
Finished goods	306.6	292.8	268.2
FIFO inventories	948.4	913.6	834.4
LIFO reserve	(28.2)	(27.8)	(26.6)
Inventories	\$ 920.2	\$ 885.8	\$ 807.8

3. Discontinued Operations

In February 2005, the Company completed the sale of its engine electronics business, included in the Automotive Group segment, 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

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

resulted in a gain of approximately \$144 million (\$88 million after tax), net of related costs and subject to certain adjustments.

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 Ended March 31,		Six Months Ended March 31,		Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004	2005	2004	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	13.7	18.2
Miscellaneous - net					1.2	1.3	1.4	1.4
Income (loss) before income taxes and minority interests	(1.6)	4.1	10.6	12.4	7.7	13.5	15.1	19.6
Provision (benefit) for income taxes	(0.6)	1.4	3.7	4.4	3.0	5.3	5.8	7.7
Minority interests					(0.2)	0.7	0.1	0.7