

JOHNSON CONTROLS INC

Form 10-Q

August 05, 2004

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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 June 30, 2004

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 X No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes X
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 June 30, 2004
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Common Stock	
\$.04 1/6 Par Value	190,250,015

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June 30, 2004

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****JOHNSON CONTROLS, INC.****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(in millions; unaudited)

	June 30, 2004	September 30, 2003	June 30, 2003
ASSETS			
Cash and cash equivalents	\$ 120.8	\$ 136.1	\$ 253.7
Accounts receivable net	3,814.7	3,539.1	3,445.6
Costs and earnings in excess of billings on uncompleted contracts	330.9	323.0	269.4
Inventories	878.7	825.9	877.6
Other current assets	767.3	796.2	773.6
	<hr/>	<hr/>	<hr/>
Current assets	5,912.4	5,620.3	5,619.9
Property, plant and equipment net	3,208.1	2,963.4	2,861.0
Goodwill net	3,321.0	3,162.7	3,094.4
Other intangible assets net	315.6	316.9	299.7
Investments in partially-owned affiliates	429.5	408.1	395.1
Other noncurrent assets	785.8	655.9	630.3
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$13,972.4</u>	<u>\$13,127.3</u>	<u>\$12,900.4</u>
LIABILITIES AND EQUITY			
Short-term debt	\$ 415.5	\$ 150.5	\$ 662.6
Current portion of long-term debt	21.9	427.8	532.5
Accounts payable	3,562.6	3,329.3	3,170.0
Accrued compensation and benefits	610.6	546.3	522.0
Accrued income taxes	63.2	58.7	82.3
Billings in excess of costs and earnings on uncompleted contracts	195.3	186.2	199.9
Other current liabilities	905.5	885.3	1,025.2
	<hr/>	<hr/>	<hr/>
Current liabilities	5,774.6	5,584.1	6,194.5

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Long-term debt	1,834.7	1,776.6	1,294.9
Postretirement health and other benefits	165.3	167.8	165.8
Minority interests in equity of subsidiaries	251.8	221.8	215.5
Other noncurrent liabilities	1,028.4	1,115.7	909.2
Shareholders' equity	<u>4,917.6</u>	<u>4,261.3</u>	<u>4,120.5</u>
 Total liabilities and equity	 <u>\$13,972.4</u>	 <u>\$13,127.3</u>	 <u>\$12,900.4</u>

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

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

(in millions, except per share data; unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Net sales				
Products and systems*	\$5,872.6	\$5,114.6	\$17,051.2	\$14,178.4
Services*	919.7	845.3	2,745.3	2,467.9
	<hr/>	<hr/>	<hr/>	<hr/>
	6,792.3	5,959.9	19,796.5	16,646.3
Cost of sales				
Products and systems	5,111.3	4,418.1	14,866.9	12,224.4
Services	773.1	706.1	2,310.6	2,074.6
	<hr/>	<hr/>	<hr/>	<hr/>
	5,884.4	5,124.2	17,177.5	14,299.0
	<hr/>	<hr/>	<hr/>	<hr/>
Gross profit	907.9	835.7	2,619.0	2,347.3
Selling, general and administrative expenses	543.2	519.4	1,731.6	1,545.8
	<hr/>	<hr/>	<hr/>	<hr/>
Operating income	364.7	316.3	887.4	801.5
Interest income	3.2	3.1	9.0	7.3
Interest expense	(24.3)	(26.5)	(77.9)	(85.1)
Equity income	18.4	14.6	52.5	37.5
Miscellaneous net	(21.6)	(11.7)	(51.6)	(29.2)
	<hr/>	<hr/>	<hr/>	<hr/>
Other income (expense)	(24.3)	(20.5)	(68.0)	(69.5)
	<hr/>	<hr/>	<hr/>	<hr/>
Income before income taxes and minority interests	340.4	295.8	819.4	732.0
Provision for income taxes	98.7	91.7	220.6	226.9
Minority interests in net earnings of	19.4	14.1	54.3	42.5

subsidiaries

	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 222.3	\$ 190.0	\$ 544.5	\$ 462.6
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Earnings available for common shareholders	\$ 222.3	\$ 188.2	\$ 542.7	\$ 457.1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Earnings per share**				
Basic	\$ 1.17	\$ 1.05	\$ 2.90	\$ 2.56
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted	\$ 1.15	\$ 1.00	\$ 2.83	\$ 2.44
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

* Products and systems consist of Automotive Group products and systems and Controls Group installed systems. Services are Controls Group technical and facility management services.

** Prior year per share amounts have been restated to reflect a two-for-one stock split (see Note 17).
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 June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Operating Activities				
Net income	\$ 222.3	\$ 190.0	\$ 544.5	\$ 462.6
Adjustments to reconcile net income to cash provided by operating activities				
Depreciation	144.8	138.6	435.0	398.5
Amortization of intangibles	5.3	5.3	16.3	14.9
Equity in earnings of partially-owned affiliates, net of dividends received	29.3	5.9	8.9	(13.9)
Minority interests in net earnings of subsidiaries	19.4	14.1	54.3	42.5
Deferred income taxes	(11.1)	13.1	37.2	18.8
Gain on sale of long-term investment				(16.6)
Pension contributions in excess of expense		(238.1)		(238.1)
Japanese pension settlement gain			(84.4)	
Other	11.3	(9.5)	7.8	(10.0)
Changes in working capital, excluding acquisition of businesses				
Receivables	(73.3)	(48.8)	(184.6)	127.3
Inventories	(39.6)	(35.6)	(25.8)	(54.1)
Other current assets	30.0	(15.5)	32.4	(67.8)
Accounts payable and accrued liabilities	90.4	97.9	144.3	(204.5)
Accrued income taxes	24.8	22.6	58.5	(64.4)
Billings in excess of costs and earnings on uncompleted contracts	(7.7)	(12.1)	4.5	0.6
Cash provided by operating activities	<u>445.9</u>	<u>127.9</u>	<u>1,048.9</u>	<u>395.8</u>
Investing Activities				
Capital expenditures	(187.9)	(170.8)	(622.5)	(411.5)
Sale of property, plant and equipment	3.5	0.2	19.3	7.1
Acquisition of businesses, net of cash acquired		(37.4)	(36.6)	(268.1)
Recoverable customer engineering expenditures	(1.0)	(13.9)	(96.2)	(38.8)
Proceeds from sale of long-term investment				38.2
Changes in long-term investments	(20.9)	19.4	(22.5)	18.7

Cash used by investing activities	<u>(206.3)</u>	<u>(202.5)</u>	<u>(758.5)</u>	<u>(654.4)</u>
Financing Activities				
(Decrease) increase in short-term debt net	(241.0)	130.8	265.0	542.4
Increase in long-term debt	86.8	4.9	195.8	5.0
Repayment of long-term debt	(147.4)	(59.1)	(678.0)	(197.1)
Payment of cash dividends	(42.6)	(34.1)	(127.9)	(102.1)
Other	<u>(1.0)</u>	<u>7.7</u>	<u>39.4</u>	<u>2.1</u>
Cash (used) provided by financing activities	<u>(345.2)</u>	<u>50.2</u>	<u>(305.7)</u>	<u>250.3</u>
(Decrease) in cash and cash equivalents	<u>\$ (105.6)</u>	<u>\$ (24.4)</u>	<u>\$ (15.3)</u>	<u>\$ (8.3)</u>

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

Table of ContentsNOTES 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, 2003. The September 30, 2003 Consolidated Statement of Financial Position is derived from the audited financial statements. The results of operations for the three- and nine-month periods ended June 30, 2004 are not necessarily indicative of the results which may be expected for the Company's 2004 fiscal year because of seasonal and other factors. Certain prior period amounts have been reclassified to conform to the current year's presentation.

2. Stock-Based Compensation Stock Options

Effective October 1, 2002, the Company voluntarily adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation and adopted the disclosure requirements of SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure an amendment of FAS 123. In accordance with SFAS No. 148, the Company has adopted the fair value recognition provisions on a prospective basis and, accordingly, the expense recognized in the three- and nine-month periods ended June 30, 2004 represents a pro rata portion of the 2004 and 2003 stock option grants which are earned over a three-year vesting period.

The following table illustrates the pro forma effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested stock option awards in each period:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
Net income, as reported	\$222.3	\$190.0	\$544.5	\$462.6
Add: Stock option expense included in reported net income, net of related tax effects	3.7	1.6	11.1	3.8
Deduct: Total stock option expense determined under the fair value based method for all stock option awards, net of related tax effects	(5.1)	(3.9)	(15.9)	(11.2)
Pro forma net income	<u>\$220.9</u>	<u>\$187.7</u>	<u>\$539.7</u>	<u>\$455.2</u>
Earnings per share*				
Basic as reported	<u>\$ 1.17</u>	<u>\$ 1.05</u>	<u>\$ 2.90</u>	<u>\$ 2.56</u>

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Basic	pro forma	\$ 1.16	\$ 1.04	\$ 2.88	\$ 2.52
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted	as reported	\$ 1.15	\$ 1.00	\$ 2.83	\$ 2.44
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted	pro forma	\$ 1.15	\$ 0.99	\$ 2.80	\$ 2.40
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

* Prior year per share amounts have been restated to reflect a two-for-one stock split (see Note 17).

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(unaudited)

3. Earnings Per Share

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
(in millions)				
<u>Income Available to Common Shareholders</u>				
Net income	\$222.3	\$190.0	\$544.5	\$462.6
Preferred stock dividends, net of tax benefit		(1.8)	(1.8)	(5.5)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic income available to common shareholders	\$222.3	\$188.2	\$542.7	\$457.1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$222.3	\$190.0	\$544.5	\$462.6
Effect of dilutive securities:				
Compensation expense, net of tax benefit, arising from assumed conversion of preferred stock		(0.5)	(0.1)	(1.5)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted income available to common shareholders	\$222.3	\$189.5	\$544.4	\$461.1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Weighted Average Shares Outstanding*</u>				
Basic weighted average shares outstanding	190.2	178.8	186.9	178.2
Effect of dilutive securities:				
Stock options	2.7	3.0	3.1	3.0
Convertible preferred stock		7.6	2.5	7.6
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted weighted average shares outstanding	192.9	189.4	192.5	188.8
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Antidilutive Securities</u>				
Options to purchase common shares	0.4	0.3	0.4	0.3

* Weighted average shares outstanding for the three- and nine-month periods ended June 30, 2003 have been restated to reflect a two-for-one stock split (see Note 17). See also Note 4 regarding the conversion of the Series D Convertible Preferred Stock.

4. Conversion of Preferred Stock

Effective December 31, 2003, the Company's Board of Directors authorized the redemption of all the outstanding Series D Convertible Preferred Stock, held in the Company's Employee Stock Ownership Plan (ESOP), and the ESOP trustee converted the preferred stock into common shares in accordance with the terms of the preferred stock certificate. The conversion resulted in the issuance of approximately 7.5 million common shares (on a post-split basis, see Note 17) and was accounted for through a transfer from preferred stock to common stock and capital in excess of par value. The conversion of \$96 million of preferred shares held by the ESOP has been reflected within Shareholders' Equity in the Consolidated Statement of Financial Position. The conversion of these shares resulted in their inclusion in the basic weighted average common shares outstanding amount used to compute basic EPS. The conversion of preferred shares has always been assumed in the determination of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

diluted EPS. The Company's ESOP was financed with debt issued by the ESOP, and the final ESOP debt payment was paid by the Company in December 2003.

5. Acquisition of Businesses

On October 31, 2002, the Company acquired VARTA AG's Automotive Battery Division, a major European automotive battery manufacturer headquartered in Germany. The Varta Automotive Battery Division (Varta) consists of VARTA Automotive GmbH and the 80% majority ownership in VB Autobatterie GmbH. Restructuring reserves related to the Varta acquisition of approximately \$18 million were recorded. The majority of the reserves were established for severance costs related to workforce reductions of approximately 235 employees.

Approximately \$7 million of severance costs, associated with workforce reductions of approximately 40 employees, have been incurred to date. The majority of the Varta restructuring activities are expected to be completed within the current fiscal year. In the first quarter of fiscal 2004, the Company made the final payment related to the Varta acquisition of \$36.6 million. In addition, the Company recorded a deferred income tax adjustment in the second quarter of fiscal 2004 associated with the completion of its valuation studies which resulted in an increase in goodwill assigned to the Automotive Group of approximately \$46 million.

Effective September 1, 2000, the Company completed the acquisition of Ikeda Bussan Co. Ltd., a Japanese supplier of automotive seating. As part of this acquisition, a restructuring reserve of approximately \$54 million was recorded. The reserve was established for expected severance costs as the Company eliminates certain non-core activities to focus on the operation's principal seating and interiors businesses. Seven plants and facilities have been or will be closed as part of the restructuring plan, with resulting workforce reductions of approximately 1,000 employees. Through June 30, 2004 approximately \$33 million of severance costs were paid or incurred, and approximately 650 employees separated from the Company. In fiscal 2002, the Company recorded an adjustment to the restructuring reserve of approximately \$10 million which resulted in a decrease to the goodwill assigned to the Automotive Group of approximately \$6 million. The reserve balance at June 30, 2004 of approximately \$11 million primarily represents remaining severance payments to be made in accordance with underlying agreements.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****6. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill for the three-month period ended September 30, 2003 and the nine-month period ended June 30, 2004 were as follows:

(in millions)	Automotive Group	Controls Group	Total
	<hr/>	<hr/>	<hr/>
Balance as of June 30, 2003	\$2,651.7	\$442.7	\$3,094.4
Goodwill from business acquisitions	79.4		79.4
Currency translation	3.7	(11.1)	(7.4)
Other	(7.2)	3.5	(3.7)
	<hr/>	<hr/>	<hr/>
Balance as of September 30, 2003	2,727.6	435.1	3,162.7
Goodwill from business acquisitions	56.4		56.4
Currency translation	75.3	16.6	91.9
Other	9.8	0.2	10.0
	<hr/>	<hr/>	<hr/>
Balance as of June 30, 2004	<u>\$2,869.1</u>	<u>\$451.9</u>	<u>\$3,321.0</u>

See Note 5 for discussion of goodwill from business acquisitions in fiscal 2004.

The Company's other intangible assets, primarily from business acquisitions, are valued based on independent appraisals and consisted of:

	June 30, 2004		September 30, 2003		June 30, 2003	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
(in millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Amortized intangible assets						