JOHNSON CONTROLS INC
Form 10-Q
August 03, 2009

Table of Contents

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended June 30, 2009**
	OR
o	**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 þ No o

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 þ No o

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. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

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, 2009**
Common Stock: $0.017/18 par value per share	595,457,368

JOHNSON CONTROLS, INC.
Form 10-Q
Report Index

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, 2009	September 30, 2008	June 30, 2008
Assets			
Cash and cash equivalents	$ 543	$ 384	$ 256
Accounts receivable net	4,910	6,472	6,647
Inventories	1,561	2,099	2,292
Other current assets	1,725	1,721	1,898
Current assets	8,739	10,676	11,093
Property, plant and equipment net	3,969	4,389	4,385
Goodwill	6,420	6,513	6,425
Other intangible assets net	745	769	779
Investments in partially-owned affiliates	713	863	859
Other noncurrent assets	1,880	1,777	1,702
Total assets	$ 22,466	$ 24,987	$ 25,243
Liabilities and Shareholders Equity			
Short-term debt	$ 605	$ 456	$ 641
Current portion of long-term debt	172	287	241
Accounts payable	3,741	5,225	5,179
Accrued compensation and benefits	892	1,024	1,036
Accrued income taxes		117	207
Other current liabilities	2,533	2,701	2,432
Current liabilities	7,943	9,810	9,736
Long-term debt	4,001	3,201	3,247
Postretirement health and other benefits	217	236	263
Other noncurrent liabilities	1,876	2,080	1,845
Long-term liabilities	6,094	5,517	5,355
Commitments and contingencies (Note 19)			

Minority interests in equity of subsidiaries	202	236	156
Shareholders equity	8,227	9,424	9,996
Total liabilities and shareholders equity	$ 22,466	$ 24,987	$ 25,243

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

Table of Contents

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Net sales				
Products and systems*	$ 5,304	$ 7,969	$ 15,668	$ 23,271
Services*	1,675	1,896	4,962	5,484
	6,979	9,865	20,630	28,755
Cost of sales				
Products and systems	4,608	6,869	14,243	20,226
Services	1,332	1,511	3,981	4,427
	5,940	8,380	18,224	24,653
Gross profit	1,039	1,485	2,406	4,102
Selling, general and administrative expenses	(787)	(877)	(2,449)	(2,715)
Restructuring costs			(230)	
Net financing charges	(65)	(69)	(167)	(204)
Equity income (loss)	30	37	(104)	85
Income (loss) before income taxes and minority interests	217	576	(544)	1,268
Provision for income taxes	50	121	109	266
Minority interests in net earnings (loss) of subsidiaries	4	16	(15)	39
Net income (loss)	$ 163	$ 439	$ (638)	$ 963
Earnings (loss) per share				
Basic	$ 0.27	$ 0.74	$ (1.07)	$ 1.62
Diluted	$ 0.26	$ 0.73	$ (1.07)	$ 1.60

* 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.
Condensed Consolidated Statements of Cash Flows
(in millions; unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Operating Activities				
Net income (loss)	$ 163	$ 439	$ (638)	$ 963
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation	172	187	535	553
Amortization of intangibles	8	9	26	28
Equity in earnings (loss) of partially-owned affiliates, net of dividends received	(4)	10	207	10
Minority interests in net earnings (loss) of subsidiaries	4	16	(15)	39
Deferred income taxes	(20)	(53)	202	(73)
Impairment charges			156	
Equity-based compensation	19	10	47	43
Other	28	18	42	37
Changes in working capital, excluding acquisitions and divestitures of businesses:				
Accounts receivable	(27)	(169)	1,297	260
Inventories	135	(57)	476	(207)
Other current assets	(6)	(156)	(13)	(117)
Restructuring reserves	(53)	(10)	(22)	(42)
Accounts payable and accrued liabilities	87	209	(1,666)	(551)
Accrued income taxes	(12)	99	(275)	85
Cash provided by operating activities	494	552	359	1,028
Investing Activities				
Capital expenditures	(103)	(190)	(529)	(551)
Sale of property, plant and equipment	5	10	8	42
Acquisition of businesses, net of cash acquired		(4)	(32)	(73)
Recoverable customer engineering expenditures	(20)	(32)	(68)	(17)
Settlement of cross-currency interest rate swaps		(62)	31	(155)
Changes in long-term investments	(21)	(10)	(84)	(22)
Cash used by investing activities	(139)	(288)	(674)	(776)
Financing Activities				
Increase (decrease) in short-term debt net	(23)	66	164	349
Increase in long-term debt net	2	7	880	240
Repayment of long-term debt	(9)	(215)	(340)	(927)
Payment of cash dividends	(77)	(77)	(231)	(220)

Stock repurchases				(73)
Other	(16)	(22)	1	(39)
Cash provided (used) by financing activities	(123)	(241)	474	(670)
Increase (decrease) in cash and cash equivalents	$ 232	$ 23	$ 159	$ (418)

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, 2009
(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, 2008. The results of operations for the three and nine month periods ended June 30, 2009 are not necessarily indicative of results for the Company s 2009 fiscal year because of seasonal and other factors.

The consolidated financial statements include the accounts of Johnson Controls, Inc. and its domestic and non-U.S subsidiaries that are consolidated in conformity with U.S. GAAP. All significant intercompany transactions have been eliminated. Investments in partially-owned affiliates are accounted for by the equity method when the Company s interest exceeds 20% and the Company does not have a controlling interest. The financial results for the nine month period ended June 30, 2009 include an out of period adjustment of $62 million made in the first and second quarters of fiscal 2009 to correct an error related to the power solutions segment. The error, which reduces segment income, primarily originated in 2007 and 2008 and resulted in the overstatement of inventory and understatement of cost of sales in prior periods.

Under certain criteria as provided for in Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46(R), Consolidation of Variable Interest Entities an Interpretation of ARB No. 51, the Company may consolidate a partially-owned affiliate when it has less than a 50% ownership. In order to determine whether to consolidate a partially-owned affiliate when the Company has less than a 50% ownership, we first determine if the entity is a variable interest entity (VIE). An entity is considered to be a VIE if it has one of the following characteristics: 1) the entity is thinly capitalized; 2) residual equity holders do not control the entity; 3) equity holders are shielded from economic losses or do not participate fully in the entity s residual economics; or 4) the entity was established with non-substantive voting. If the entity meets one of these characteristics, we then determine if the Company is the primary beneficiary of the VIE. Under FIN 46(R), the party exposed to the majority of the risks and rewards associated with the VIE is the VIE s primary beneficiary and must consolidate the entity.

Based upon the criteria set forth in FIN 46(R), the Company has determined that at June 30, 2009 it was the primary beneficiary in two VIE s in which it holds less than 50% ownership as the Company funds the entities short-term liquidity needs. Both entities are consolidated within the automotive experience North America segment. The Company did not have a significant variable interest in any unconsolidated VIE s as of June 30, 2009. The carrying amounts and classification of assets and liabilities included in our consolidated statements of financial position for consolidated VIE s are as follows (in millions):

	June 30, 2009	June 30, 2008
Current assets	$ 116	$ 116
Noncurrent assets	106	126
Total assets	$ 222	$ 242

Current liabilities	$ 76	$ 127
Noncurrent liabilities		
Total liabilities	$ 76	$ 127

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

2. New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. This statement is effective for the Company in the fourth quarter of fiscal 2009 (September 30, 2009). Upon effect, the FASB Accounting Standard Codification will become the source of authoritative U.S. GAAP recognized by the FASB. The adoption of this statement will have no impact on the Company s consolidated financial condition and results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). SFAS No. 167 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 is effective for the Company beginning in the first quarter of fiscal 2011 (October 1, 2010). The Company is assessing the potential impact that the adoption on SFAS No. 167 will have on its consolidated financial condition and results of operations.

In May 2009, FASB issued SFAS No. 165, Subsequent Events. SFAS No. 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard requires disclosure of the date through which the company has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. This statement is effective for the Company in the third quarter of fiscal 2009 (June 30, 2009). Refer to Note 20, Subsequent Events, for disclosure of the Company s subsequent events for the current reporting period.

In April 2009, the FASB issued Staff Position (FSP) Financial Accounting Standards (FAS) 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP requires disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This statement was effective for the Company beginning in the third quarter of fiscal 2009 (April 1, 2009) with early adoption permitted. The Company adopted this FSP effective January 1, 2009 and determined that the impact of adoption was not material to its consolidated financial condition and results of operation. See Note 15, Derivative Instruments and Hedging Activities, and Note 16, Fair Value Measurements, for disclosure of the Company s fair value of financial instruments as of June 30, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 was effective for the Company beginning in the second quarter of fiscal 2009 (January 1, 2009). See Note 15, Derivative Instruments and Hedging Activities, for disclosure of the Company s derivative instruments and hedging activities at June 30, 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations. SFAS No. 141(R) changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141(R) will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). This standard, when adopted, will change the Company s accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity.

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

This new consolidation method changes the accounting for transactions with minority interest holders. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). The Company is assessing the potential impact that the adoption of SFAS No. 160 will have on its consolidated financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment to FASB Statement No. 115. SFAS No. 159 permits entities to measure certain financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company adopted this statement effective October 1, 2008 and has not elected to measure any financial assets and financial liabilities at fair value which were not previously required to be measured at fair value. The adoption of this standard has had no impact on the Company s consolidated financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. The Company adopted this statement effective October 1, 2008. The adoption of this standard has had no material impact on the Company s consolidated financial condition and results of operation. See Note 16, Fair Value Measurements, for more information regarding the impact of the Company s adoption of SFAS No. 157. In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. The Company has not applied the provisions of SFAS No. 157 to its nonfinancial assets and nonfinancial liabilities in accordance with FSP FAS 157-2 as of June 30, 2009. The provisions of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009).

3. Acquisition of Businesses

During fiscal 2009 the Company completed two acquisitions for a combined purchase price of $37 million, of which $32 milion was paid in the nine months ended June 30, 2009. Neither acquisition was material to the Company s consolidated financial statements. In connection with these acquisitions, the Company recorded goodwill of $24 million. The purchase price allocation may be subsequently adjusted to reflect final valuation studies.

During the nine months ended June 30, 2008, the Company completed four acquisitions for a combined purchase price of $80 million, of which $73 million was paid in the respective period. None of these acquisitions were material to the Company s consolidated financial statements. In connection with these acquisitions, the Company recorded goodwill of $55 million.

In July 2008, the Company formed a joint venture to acquire the interior product assets of Plastech Engineered Products, Inc (Plastech). Plastech filed for bankruptcy in February 2008. The Company owns 70% of the newly formed entity and certain Plastech term lenders hold the minority position. The Company contributed cash and injection molding plants to the new entity with a fair value of $262 million. The lenders contributed their rights to receive Plastech s interiors business obtained in exchange for certain Plastech debt. The combined equity in the new entity was approximately $375 million. Goodwill of $199 million was recorded as part of the transaction. In the third quarter of fiscal 2009, the Company finalized valuations associated with the acquisition and recorded a $21 million increase to goodwill.

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

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

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 $522 million, $670 million and $637 million at June 30, 2009, September 30, 2008, and June 30, 2008, respectively. Amounts included within other current liabilities were $610 million, $654 million, and $615 million at June 30, 2009, September 30, 2008, and June 30, 2008, respectively.

5. Inventories

Inventories consisted of the following (in millions):

	June 30, 2009	September 30, 2008	June 30, 2008
Raw materials and supplies	$ 720	$ 902	$ 929
Work-in-process	225	324	359
Finished goods	728	985	1,066
FIFO inventories	1,673	2,211	2,354
LIFO reserve	(112)	(112)	(62)
Inventories	$ 1,561	$ 2,099	$ 2,292

6. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill in each of the Company s reporting segments for the three month period ended September 30, 2008 and the nine month period ended June 30, 2009 were as follows (in millions):

	June 30, 2008	Business Acquisitions	Currency Translation and Other	September 30, 2008
Building efficiency				
North America systems	$ 512	$ 4	$ (1)	$ 515
North America service	663	(6)		657
North America unitary products	481			481
Global workplace solutions	181	6	(9)	178
Europe	416		12	428
Rest of world	593		(19)	574
Automotive experience				
North America	1,177	178	1	1,356
Europe	1,275	7	(63)	1,219
Asia	205		(5)	200
Power solutions	922		(17)	905
Total	$ 6,425	$ 189	$ (101)	$ 6,513

	Business	Currency Translation	June 30,

	September 30, 2008	Acquisitions	and Other	2009
Building efficiency				
North America systems	$ 515	$	$	$ 515
North America service	657		1	658
North America unitary products	481		2	483
Global workplace solutions	178		(5)	173
Europe	428		(9)	419
Rest of world	574	24	(49)	549
Automotive experience				
North America	1,356	21	1	1,378
Europe	1,219		(46)	1,173
Asia	200		4	204
Power solutions	905		(37)	868
Total	$ 6,513	$ 45	$ (138)	$ 6,420

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

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

	June 30, 2009			September 30, 2008			June 30, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets									
Patented technology	$ 303	$ (181)	$ 122	$ 302	$ (168)	$ 134	$ 309	$ (167)	$ 142
Unpatented technology	23	(12)	11	25	(11)	14	26	(11)	15
Customer relationships	343	(51)	292	344	(42)	302	342	(39)	303
Miscellaneous	36	(13)	23	35	(13)	22	35	(13)	22
Total amortized intangible assets	705	(257)	448	706	(234)	472	712	(230)	482
Unamortized intangible assets									
Trademarks	297		297	297		297	297		297
Total intangible assets	$ 1,002	$ (257)	$ 745	$ 1,003	$ (234)	$ 769	$ 1,009	$ (230)	$ 779

Amortization of other intangible assets for the nine month periods ended June 30, 2009 and 2008 was $26 million and $28 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates amortization of other intangible assets will average approximately $33 million per year over the next five years.

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. Based on analysis of return rates and other factors, the adequacy of the Company s warranty provisions are adjusted as necessary. While the Company s warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could exceed those estimates. The Company s product warranty liability is included in other current liabilities in the condensed consolidated statement of financial position.

The changes in the carrying amount of the Company s total product warranty liability for the nine months ended June 30, 2009 and 2008 were as follows (in millions):

	2009	2008
Balance as of September 30	$ 204	$ 186
Accruals for warranties issued during the period	163	121
Accruals from acquisitions		

Accruals related to pre-existing warranties (including changes in estimates)	4	3
Settlements made (in cash or in kind) during the period	(155)	(108)
Currency translation	(4)	6
Balance as of June 30	$ 212	$ 208

8. Restructuring Costs

To further 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 relates to cost reduction initiatives in the Company s automotive experience, building efficiency and power solutions businesses and includes workforce reductions and plant consolidations. The Company expects to substantially complete the 2009 Plan by the end of 2010. The automotive-related restructuring actions target excess manufacturing capacity resulting from lower industry production in the European, North American and Japanese automotive markets. The restructuring

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

actions in building efficiency are 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 are focused on optimizing its manufacturing capacity as a result of lower overall demand for original equipment batteries resulting from lower vehicle production levels.

The 2009 Plan includes workforce reductions of approximately 6,400 employees (2,900 for automotive experience North America, 1,900 for automotive experience Europe, 600 for automotive experience Asia, 200 for building efficiency North America, 400 for building efficiency Europe, 100 for building efficiency rest of world, and 300 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, 2009, approximately 3,700 employees have been separated from the Company pursuant to the 2009 Plan. In addition, the 2009 Plan includes 9 plant closures (3 for automotive experience North America, 1 for automotive experience Europe, 3 for automotive experience Asia, 1 for building efficiency rest of world, and 1 for power solutions). As of June 30, 2009, none of the plants have been closed. The portion of the restructuring charge for the impairment of long-lived assets associated with the plant closures was determined using fair value based on a discounted cash flow analysis.

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

	Employee Severance and Termination Benefits	Fixed Asset Impairment	Other	Currency Translation	Total
Original Reserve	$ 182	$ 46	$ 2	$	$ 230
Utilized Cash	(15)				(15)
Utilized Noncash		(46)			(46)
Balance at March 31, 2009	$ 167	$	$ 2	$	$ 169
Utilized Cash	(8)				(8)
Utilized Noncash				6	6
Balance at June 30, 2009	$ 159	$	$ 2	$ 6	$ 167

Included within the other category are exit costs for terminating supply contracts associated with changes in the Company s manufacturing footprint and strategies, lease termination costs and other direct costs.

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 relates to cost reduction initiatives in its automotive experience, building efficiency and power solutions businesses and includes workforce reductions and plant consolidations. The Company expects to substantially complete the 2008 Plan by early 2010. The automotive-related restructuring is in response to the changing fundamentals of the European and North American automotive markets. The actions target 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 are 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 are focused on optimizing its regional manufacturing capacity.

The 2008 Plan includes workforce reductions of approximately 9,400 employees (3,700 for automotive experience North America, 3,400 for automotive experience Europe, 400 for building efficiency North America, 1,000 for building efficiency Europe, 400 for building efficiency rest of world and 500 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, 2009, approximately 7,200 employees have been separated from the Company pursuant to the 2008 Plan. In addition, the 2008 Plan includes 21 plant closures (9 for

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

automotive experience North America, 9 for automotive experience Europe, 1 for building efficiency North America, and 2 for power solutions). As of June 30, 2009, 10 of the 21 plants have been closed. The portion of the restructuring charge for the impairment of long-lived assets associated with the plant closures was determined using fair value based on a discounted cash flow analysis.

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

	Employee Severance and Termination Benefits	Other	Currency Translation	Total
Balance at September 30, 2008	$ 435	$ 9	$	$ 444
Utilized Cash	(47)			(47)
Utilized Noncash			(17)	(17)
Balance at December 31, 2008	$ 388	$ 9	$ (17)	$ 380
Utilized Cash	(86)			(86)
Utilized Noncash			(22)	(22)
Balance at March 31, 2009	$ 302	$ 9	$ (39)	$ 272
Utilized Cash	(45)			(45)
Utilized Noncash		(5)	17	12
Balance at June 30, 2009	$ 257	$ 4	$ (22)	$ 239

Included within the other category are exit costs for terminating supply contracts associated with changes in the Company s manufacturing footprint and strategies, lease termination costs and other direct costs.

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 the Company s operations.

9. Research and Development

Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within selling, general and administrative expenses in the consolidated statement of income. A portion of the costs associated with these activities is reimbursed by customers. Such expenditures amounted to $29 million and $95 million for the three months ended June 30, 2009 and 2008, respectively, and $219 million and $322 million for the nine months ended June 30, 2009 and 2008, respectively. These expenditures are net of customer reimbursements of $146 million and $106 million for the three months ended June 30, 2009 and 2008, respectively, and $312 million and $282 million for the nine months ended June 30, 2009 and 2008, respectively.

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

10. Income Taxes

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Federal, state and foreign income tax expense at annual effective rate	$ 59	$ 121	$ (147)	$ 266
Effective tax rate adjustment	11			
Valuation allowance adjustment	(3)		252	
Restructuring charges			18	
Impairment charges			39	
Uncertain tax positions	(17)		(17)	
Change in tax status of foreign subsidiary			(30)	
Interest refund			(6)	
Provision for income taxes	$ 50	$ 121	$ 109	$ 266

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 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. For the three and nine months ended June 30, 2009, the Company decreased its estimated annual effective income tax rate from continuing operations from 31% to 27%, primarily due to a geographical shift in income and global tax planning initiatives. Because there is a cumulative year-to-date loss, this created a tax increase of $11 million in the current quarter after applying the new effective rate to the provision in the prior two quarters. The effective income tax rate from continuing operations for the three and nine months ended June 30, 2008 was 21%.

Valuation Allowance

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.

In the third quarter of fiscal 2009, 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 the Brazil power solutions entity would be utilized. Therefore, the Company released $10 million of valuation allowances in the three month period ended June 30, 2009. This is comprised of a $3 million decrease in income tax expense with the remaining amount impacting the statement of financial position because it related to acquired net operating losses.

In the second quarter of fiscal 2009, 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 asset associated with a capital loss would be

utilized. Therefore, the Company released $45 million of valuation allowances against the income tax provision in the three month period ended March 31, 2009.
In the first quarter of fiscal 2009, the Company performed an analysis of its worldwide deferred tax assets. As a result of the rapid deterioration in the economic environment, several jurisdictions incurred unexpected

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

losses in the first quarter that resulted in cumulative losses over the prior three years. 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 would not be utilized in several jurisdictions including France, Mexico, Spain and the United Kingdom. Therefore, the Company recorded $300 million of valuation allowances as income tax expense. To the extent the Company improves its underlying operating results in these jurisdictions, these valuation allowances, or a portion thereof, could be reversed in future periods.

Restructuring Charge

In the second quarter of fiscal 2009, the Company recorded a $27 million discrete period tax adjustment related to the second quarter 2009 restructuring costs using a blended statutory tax rate of 19.2%. Due to the tax rate change in the third quarter of fiscal 2009, the discrete period tax adjustment decreased by $9 million for a total tax adjustment for the nine months ended June 30, 2009 of $18 million.

Impairment Charges

In the first quarter of fiscal 2009, the Company recorded a $30 million discrete period tax adjustment related to first quarter 2009 impairment costs using a blended statutory tax rate of 12.6%. Due to the effective tax rate change in the second quarter of fiscal 2009, the discrete period tax adjustment increased by $18 million for a total tax adjustment for the six months ended March 31, 2009 of $48 million. Due to the effective tax rate change in the third quarter of fiscal 2009, the discrete period tax adjustment decreased by $9 million for a total tax adjustment for the nine months ended June 30, 2009 of $39 million.

Uncertain Tax Positions

In June 2006, FASB issued FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. The Company adopted FIN 48 as of October 1, 2007.

Upon adoption, the Company increased its existing reserves for uncertain tax positions by $93 million. The increase was recorded as a cumulative effect adjustment to shareholders equity of $68 million and an increase to goodwill of $25 million related to prior year business combinations. As of the adoption date, the Company had gross tax affected unrecognized tax benefits of $616 million of which $475 million, if recognized, would affect the effective tax rate. Also as of the adoption date, the Company had accrued interest expense and penalties related to the unrecognized tax benefits of $75 million (net of tax benefit). The net change in interest and penalties during the nine months ended June 30, 2009 was $17 million and was not material for the same period in fiscal 2008. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense or goodwill, when applicable.

As a result of various entities exiting business in certain jurisdictions and certain recent events related to prior tax planning initiatives, during the third quarter of fiscal 2009, the Company reduced the reserve for uncertain tax positions by $33 million. This is comprised of a $17 million decrease to tax expense, which impacts the effective tax rate, and a $16 million decrease to goodwill.

The Company is subject to income taxes in the United States 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 the major jurisdictions noted below:

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Tax Jurisdiction	Statute of Limitations
Austria	5 years
Belgium	3 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
Spain	4 years
United Kingdom	6 years
U.S. Federal	3 years
U.S. State	3 to 5 years

In the United States, the 2004 through 2006 fiscal years are currently under exam by the Internal Revenue Service (IRS) and the fiscal years 1999 to 2003 are currently under IRS Appeals. Additionally, the Company is currently under exam in the following major foreign jurisdictions:

Tax Jurisdiction	Tax Years Covered
Austria	2003 2005
Brazil	2005 2008
Canada	2004 2006
France	2005 2008
Germany	2001 2006
Italy	2004 2006
Mexico	2003 2004
Spain	2003 2005

It is reasonably possible that certain tax examinations, appellate proceedings and/or tax litigation will conclude within the next 12 months, which may result in favorable tax reserve adjustments in the range of $30 million to $70 million.

Change in Tax Status of non-U.S. Subsidiary

In the second quarter of fiscal 2009, the Company recorded a $30 million discrete period tax benefit related to a change in tax status of a French subsidiary.

The change in tax status resulted from a voluntary tax election that produced a deemed liquidation for U.S. federal income tax purposes. The Company received a tax benefit in the U.S. for the loss from the decrease in value from the original tax basis of its investment. This election changed the tax status from a controlled foreign corporation (i.e., taxable entity) to a branch (i.e., flow through entity similar to a partnership) for U.S. federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109.

Interest Refund Claim

In the second quarter of fiscal 2009, the Company filed a claim for refund with the IRS related to interest computations of prior tax payments and refunds. The refund claim resulted in a tax provision decrease of

$6 million.

Impacts of Tax Legislation

In February 2009, Wisconsin enacted numerous changes to Wisconsin income tax law as part of the Budget Stimulus and Repair Bill, Wisconsin Act 2. These changes will become effective in the Company s tax year ended September 30, 2010. The major changes included an adoption of corporate unitary combined reporting and an expansion of the related entity expense add back provisions. These Wisconsin tax law changes will not have a material impact on the Company s consolidated financial condition, results of operations or cash flows.

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Various other tax legislation was adopted in the nine months ended June 30, 2009. None of these changes will have a material impact on the Company s consolidated financial condition, results of operations or cash flows.

11. 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 SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88 and 106 (in millions):

	U.S. Pension Plans			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Service cost	$ 17	$ 20	$ 50	$ 60
Interest cost	40	35	119	105
Expected return on plan assets	(45)	(41)	(134)	(124)
Amortization of net actuarial loss	1	1	3	4
Amortization of prior service cost			1	1
Net periodic benefit cost	$ 13	$ 15	$ 39	$ 46

	Non-U.S. Pension Plans			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Service cost	$ 8	$ 10	$ 23	$ 29
Interest cost	16	20	48	56
Expected return on plan assets	(13)	(17)	(39)	(50)
Amortization of net actuarial loss	1	1	3	5
Amortization of prior service cost	1		1	
Net periodic benefit cost	$ 13	$ 14	$ 36	$ 40

	Postretirement Health and Other Benefits			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Service cost	$ 1	$ 2	$ 3	$ 4
Interest cost	5	4	14	13
Amortization of net actuarial gain	(1)	(1)	(2)	(2)
Amortization of prior service credit	(2)	(1)	(5)	(5)
Net periodic benefit cost	$ 3	$ 4	$ 10	$ 10

12. Debt and Financing Arrangements

In May 2009, the Company entered into a new one year revolving credit facility in the amount of 50 million euro expiring in May 2010, which replaced a 100 million euro revolving facility expiring May 2009.

On March 16, 2009, the Company issued nine million Equity Units (Units) with an aggregate principal amount of $450 million in a public offering. The Company received approximately $436 million in net proceeds from the sale of the Units after underwriting discounts and other expenses. The proceeds were used to repay short-term indebtedness incurred within the second quarter to fund working capital requirements. Each Unit has a stated amount of $50 and consists of (a) a purchase contract which obligates the holder to purchase, and obligates the Company to sell, no later than March 31, 2012, a variable number of shares of the Company s common stock for $50 and (b) a one-twentieth, or 5%, undivided beneficial ownership interest in

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

a subordinated note issued by the Company due March 31, 2042 with a principal amount of $1,000. The subordinated notes are pledged by the holders to secure their obligations under the purchase contract, and at the time of the offering, the estimated fair value of the purchase contract was zero. The Company will make quarterly interest payments at the annual rate of 11.5% on the subordinated notes, and the first interest payment was made on June 30, 2009. Prior to March 31, 2012, the Company may defer payment of interest on the subordinated notes for one or more consecutive interest periods provided that each deferred interest payment may only be deferred until the earlier of (a) the third anniversary of the interest payment date on which the interest payment was originally scheduled to be paid or (b) March 31, 2014. The subordinated notes will be remarketed between January 1, 2012 and March 31, 2012 whereby the interest rate on the notes will be reset and certain other terms of the notes may be modified in order to generate sufficient remarketing proceeds to satisfy the Unit holders obligations under the purchase contract. If the subordinated notes are not successfully remarketed, then a put right of holders of the notes will be automatically exercised unless such holders (a) notify the Company of their intent to settle their obligations under the purchase contracts in cash, and (b) deliver $50 in cash per purchase contract, by the applicable dates specified by the purchase contracts. Following such exercise and settlement, the Unit holders obligations to purchase shares of common stock under the purchase contracts will be satisfied in full, and the Company will deliver the shares of common stock to such holders.

In connection with this transaction, approximately $14 million of issuance costs were incurred. Of the total issuance costs, approximately $12 million was charged to Capital in excess of par value with the remainder deferred and amortized over three years.

The number of shares to be issued under the purchase contracts is contingent and is based on, among other things, the share price of the Company s common stock on the stock purchase date and anti-dilution adjustments. The minimum and maximum number of shares to be issued under the purchase contract is approximately 43.7 million and 50.3 million, respectively, subject to anti-dilution adjustments. Before the issuance of common stock upon settlement of the purchase contracts, the purchase contracts will be reflected in diluted earnings per share using the if-converted method. Under this method, if dilutive, the common stock is assumed issued and included in calculating diluted earnings per share. The number of shares of common stock used in calculating diluted earnings per share is based on the nine million Units issued at $50 per Unit divided by the beginning stock price for the reporting period. In addition, if dilutive, interest expense and amortization, net of tax, related to the subordinated notes will be added back to the numerator in calculating diluted earnings per share. Refer to Note 13, Earnings Per Share, for the calculation of diluted earnings per share.

On March 16, 2009, the Company closed an offering of $402.5 million aggregate principal amount of 6.5% convertible senior notes due September 30, 2012. The notes are convertible into shares of the Company s common stock at a conversion rate of 89.3855 shares of common stock per $1,000 principal amount of notes, which is equal to a conversion price of approximately $11.19 per share, subject to anti-dilution adjustments. The net proceeds from the sale of the convertible notes were approximately $392 million after underwriting discounts and other expenses and were used to repay short-term indebtedness incurred within the second quarter to fund working capital requirements.

In February 2009, the Company entered into a $50 million, three year, floating rate bilateral loan agreement. The Company drew the entire amount under the loan agreement during the course of the second quarter of fiscal 2009. Also during the second quarter of fiscal 2009, the Company retired approximately $54 million in principal amount of its $800 million fixed rate bonds that mature in January 2011. The Company used proceeds from the $50 million floating rate loan agreement to retire the bonds.

On January 17, 2009, the Company retired its 24 billion yen, three year, floating rate loan agreement that matured. The Company used proceeds from commercial paper issuances to repay amounts due under the loan agreement.

13. Earnings Per Share

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

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2008
Income Available to Common Shareholders				
Basic income (loss) available to common shareholders	$ 163	$ 439	$ (638)	$ 963
Financing costs related to the convertible senior notes and Equity Units, net of tax	13			
Diluted income (loss) available to common shareholders	$ 176	$ 439	$ (638)	$ 963
Weighted Average Shares Outstanding				
Basic weighted average shares outstanding	594.7	592.9	593.9	593.0
Effect of dilutive securities:				
Stock options	1.8	8.0		8.7
Equity units	43.7			
Convertible senior notes	36.0			
Diluted weighted average shares outstanding	676.2	600.9	593.9	601.7
Antidilutive Securities				
Options to purchase common shares	6.2	0.9	6.2	0.9

For the nine months ended June 30, 2009, the total number of potential dilutive shares due to stock options, Equity Units and convertible senior notes was 87.6 million. However, these items were not included in the computation of diluted net loss per common share for the nine months ended June 30, 2009, since to do so would decrease the loss per share.

During each of the three months ended June 30, 2009 and 2008, the Company declared a dividend of $0.13 per common share and during each of the nine months ended June 30, 2009 and 2008, the Company declared three quarterly dividends totaling $0.39 per common share. The Company paid all dividends in the month subsequent to the end of each fiscal quarter.

14. Comprehensive Income

A summary of comprehensive income is shown below (in millions):

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2008
Net income (loss)	$ 163	$ 439	$ (638)	$ 963
Realized and unrealized gains (losses) on derivatives	28	(49)	30	(101)
Foreign currency translation adjustments	193	70	(383)	518
Other comprehensive income (loss)	221	21	(353)	417

Comprehensive income (loss)	$ 384	$ 460	$ (991)	$ 1,380

The Company selectively hedges anticipated transactions that are subject to foreign exchange exposure or commodity price exposure, primarily using foreign currency exchange contracts and commodity contracts, respectively. These instruments are designated as cash flow hedges in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137, No. 138 and No. 149 and are recorded in the condensed consolidated statement of financial position at fair value. The effective portion of the contracts gains or losses due to changes in fair value are initially recorded as unrealized gains/losses on derivatives, a component of accumulated other comprehensive income, and are subsequently reclassified into earnings when the hedged transactions, typically sales or costs related to sales, occur and affect earnings.

The Company has foreign currency-denominated debt obligations which are designated as hedges of net investments in foreign subsidiaries. Gains and losses, net of tax, attributable to these hedges are deferred as cumulative translation adjustments within the accumulated other comprehensive income account until the sale or liquidation of the related foreign subsidiary.

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Refer to Note 15, Derivative Instruments and Hedging Activities, and Note 16, Fair Value Measurements, for further discussion of the Company s derivative instruments and related hedge items.

15. Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 was effective for the Company beginning in the second quarter of fiscal 2009 and is being applied prospectively.

The Company selectively uses derivative instruments to reduce market risk associated with changes in foreign currency, commodities and compensation expense. 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 16, Fair Value Measurements, 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 foreign currency denominated debt obligations to selectively hedge portions of its net investment in Japan. The currency effects of the debt obligations are reflected in the accumulated other comprehensive income (AOCI) account within shareholders equity where they offset gains and losses recorded on the Company s net investment in Japan. As of June 30, 2009, the Company had 37 billion yen of foreign denominated debt outstanding designated as net investment hedges in 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. As of June 30, 2009, the Company had the following outstanding commodity hedge contracts that hedge forecasted purchases:

Commodity	Units	Volume Outstanding as of June 30, 2009
Copper	Pounds	10,350,000
Lead	Metric tons	2,250
Polypropylene	Pounds	4,000,000

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 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, 2009, the Company had hedged approximately 2.1 million shares of its common stock.

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

The following table presents the location and fair values of derivative instruments and hedging activities included in the Company s condensed consolidated statement of financial position at June 30, 2009 (in millions):

	June 30, 2009	
	Derivatives and Hedging Activities Designated as Hedging Instruments under SFAS No. 133	Derivatives and Hedging Activities Not Designated as Hedging Instruments under SFAS No. 133
Other current assets		
Foreign currency exchange derivatives	$ 19	$ 14
Commodity derivatives	2	
Other noncurrent assets		
Foreign currency exchange derivatives	2	1
Equity swap		45
Total assets	$ 23	$ 60
Current portion of long-term debt		
Net investment hedge	$ 126	$
Other current liabilities		
Foreign currency exchange derivatives	24	
Commodity derivatives	11	
Long-term debt		
Net investment hedges	262	
Other noncurrent liabilities		
Foreign currency exchange derivatives	2	2
Total liabilities	$ 425	$ 2

The following tables present the location and amount of gains and losses on derivative instruments and related hedge items included in the Company s consolidated statement of income for the three and six months ended June 30, 2009 and gains and losses initially recognized in other comprehensive income (OCI) net of tax or cumulative translation adjustment (CTA) net of tax in the condensed consolidated statement of financial position at June 30, 2009 (in millions):

Derivatives in SFAS No. 133 Cash Flow Hedging Relationships	As of June 30, 2009 Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	For the three months ended June 30, 2009 Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	For the three months ended June 30, 2009 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	$ (3)	Net sales	$ (6)		$
Commodity derivatives	(9)	Cost of sales	(24)	Cost of sales	(1)
Total	$ (12)		$ (30)		$ (1)

	For the six months ended June 30, 2009 Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	For the six months ended June 30, 2009 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	Net sales	$ (13)		$
Commodity derivatives	Cost of sales	(70)	Cost of sales	(5)

Total	$	(83)	$	(5)

Hedging Activities in SFAS No. 133 Net Investment Hedging Relationships		As of June 30, 2009 Amount of Gain (Loss) Recognized in CTA on Derivative (Effective Portion)
Net investment hedges	$	(13)
Total	$	(13)

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three and six months ended June 30, 2009, no gains or losses were reclassified from AOCI into income for the Company s net investment hedges.

		For the three months ended June 30, 2009	
Derivatives Not Designated as Hedging Instruments under SFAS No. 133	**Location of Gain (Loss) Recognized in Income on Derivative**		**Amount of Gain (Loss) Recognized in Income on Derivative**
Foreign currency exchange derivatives	Cost of sales	$	(10)
Foreign currency exchange derivatives	Net financing charges		23
Equity swap	Selling, general and administrative expenses		16
Commodity derivatives	Cost of sales		(1)
Total		$	28

		For the six months ended June 30, 2009	
	Location of Gain (Loss) Recognized in Income on Derivative		**Amount of Gain (Loss) Recognized in Income on Derivative**
Foreign currency exchange derivatives	Cost of sales	$	(86)
Foreign currency exchange derivatives	Net financing charges		102
Equity swap	Selling, general and administrative expenses		20
Commodity derivatives	Cost of sales		(4)
Total		$	32

Refer to Note 14, Comprehensive Income, for further discussion of realized and unrealized gains and losses on derivatives recorded in other comprehensive income. In addition, the Company does not hold any derivative instruments which contain credit-risk-related contingent features.

16. Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. The Company has not applied the provisions of SFAS No. 157 to its nonfinancial assets and nonfinancial liabilities in accordance with FSP FAS 157-2 as of June 30, 2009.

SFAS No. 157 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. SFAS No. 157 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.

SFAS No. 157 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.

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Recurring Fair Value Measurements

The following table presents the Company s fair value hierarchy for those assets and liabilities measured at fair value on a quarterly basis as of June 30, 2009 (in millions):

	Total as of June 30, 2009	Fair Value Measurements Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cross-currency interest rate swap	$	$	$	$
Equity swap	45	45		
Foreign currency exchange derivatives	36	36		
Commodity derivatives	2		2	
Total	$ 83	$ 81	$ 2	$
Liabilities				
Foreign currency exchange derivatives	$ 28	$ 28	$	$
Commodity derivatives	11		11	
Interest rate swaps and related debt				
Foreign currency denominated debt	388	388		
Total	$ 427	$ 416	$ 11	$

Valuation Methods

Cross-currency interest rate swap The Company selectively uses cross-currency interest rate swaps to hedge the foreign currency rate risk associated with certain of its foreign currency denominated debt obligations. The cross-currency interest rate swap is valued using market assumptions. The currency effects of the swap and related debt obligation are reflected in the consolidated statement of income and the change in value of the swap and debt obligation offset. The Company settled its cross-currency interest rate swap in the second quarter of fiscal 2009.

Equity swap 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. The Company settled the equity swap at the beginning of the second quarter of fiscal 2009. The Company reinstituted the equity swap at the end of the second quarter of fiscal 2009 with a reduced number of shares and additional shares were purchased in the third quarter of fiscal 2009.

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, 2009.

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 polypropylene. 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

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

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 commodity price changes at June 30, 2009.

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 bonds. As fair value hedges, the interest rate swaps and related debt balances are valued under a market approach using publicized swap curves. Changes in the fair value of the swap and hedged portion of the debt are recorded in the consolidated statement of income. The Company settled interest rate swaps hedging $450 million of debt in the second quarter of fiscal 2009. In July 2009, the Company entered into three interest rate swaps totaling $700 million to hedge a portion of the Company s 5.25% note maturing in January 2011 ($746 million).

Foreign currency denominated debt The Company has entered into certain foreign currency denominated debt obligations to selectively hedge portions of its net investment in Japan. As net investment hedges, the currency effects of the debt obligations 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 s foreign denominated debt obligations are valued under a market approach using publicized spot prices. On January 15, 2008, the Company had entered into a 18 billion yen, three year, floating rate loan agreement. The Company did not elect to designate the debt as part of the hedge of the net investment in Japan and hedged the exposure of the change in value of the yen with a 18 billion yen cross-currency swap. The currency effect of the 18 billion yen loan was reflected in the consolidated statement of income. On January 17, 2009, the Company retired its 24 billion yen, three year, floating rate loan agreement that matured, leaving unhedged a significant portion of the net investment in Japan. On that date, the Company unwound the cross-currency swap that hedged the 18 billion yen loan and elected to designate the latter as part of its net investment hedge in Japan.

17. 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 SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 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.

In the third quarter of fiscal 2009, the Company concluded it had a triggering event requiring assessment of impairment of its long-lived assets in light of the restructuring plans in North America announced by Chrysler LLC (Chrysler) and General Motors Corporation (GM) during the quarter as part of their bankruptcy reorganization plans. As a result, the Company reviewed its long-lived assets relating to the Chrysler and GM platforms within the North America automotive experience segment and determined no impairment existed.

In the second quarter of fiscal 2009, the Company concluded it had a triggering event requiring assessment of impairment of its long-lived assets in conjunction with its restructuring plan announced in March 2009. As a result, the Company reviewed its long-lived assets associated with the plant closures for impairment and recorded a $46 million impairment charge in the second quarter of fiscal 2009, of which $25 million related to the North America automotive experience segment, $16 million related to the Asia automotive experience segment and $5 million related to the Europe automotive experience segment. Refer to Note 8, Restructuring Costs, for further information regarding the 2009 restructuring plan. Additionally, at March 31, 2009, in conjunction with the preparation of its financial statements, the Company concluded it had a triggering event requiring assessment of its other long-lived assets within the European automotive experience segment due to significant declines in European automotive sales volume. As a result, the Company reviewed its other long-lived assets within the

Europe automotive experience segment for impairment and determined no additional impairment existed.
At December 31, 2008, in conjunction with the preparation of its financial statements, the Company concluded it had a triggering event requiring assessment of impairment of its long-lived assets due to the significant declines in North American and European automotive sales volumes. As a result, the Company reviewed its

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

long-lived assets for impairment and recorded a $110 million impairment charge in the first quarter of fiscal 2009, of which $77 million related to the North America automotive experience segment and $33 million related to the Europe automotive experience segment.

The Company reviews its equity investments for impairment whenever there is a loss in value of an investment which is other than a temporary decline. The Company conducts its equity investment impairment analyses in accordance with APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. APB Opinion No. 18 requires the Company to record an impairment charge for a decrease in value of an investment when the decline in the investment is considered to be other than temporary.

At December 31, 2008, in conjunction with the preparation of its financial statements, the Company concluded it had a triggering event requiring assessment of impairment of its equity investment in a 48%-owned joint venture with U.S. Airconditioning Distributors, Inc. (U.S. Air) due to the significant decline in North American residential housing construction starts, which has significantly impacted the financial results of the equity investment. The Company reviewed its equity investment in U.S. Air for impairment and as a result, recorded a $152 million impairment charge within its North America unitary products segment in the first quarter of fiscal 2009.

The Company concluded there were no other impairments as of June 30, 2009. The Company will continue to monitor developments in the automotive and North American residential heating, ventilating and air conditioning (HVAC) industries as future adverse developments in these industries could lead to additional impairment charges.

18. Segment Information

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes the standards for reporting information about segments in financial statements. In applying the criteria set forth in SFAS No. 131, the Company has determined that it has ten reportable segments for financial reporting purposes. Certain segments are aggregated or combined based on materiality within building efficiency rest of world and power solutions in accordance with the standard. The Company s ten 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 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.

North America unitary products designs and produces heating and air conditioning solutions for residential and light commercial applications and markets products to the replacement and new construction markets.

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.

Europe provides HVAC and refrigeration systems and technical services to the European marketplace.

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Rest of world provides HVAC and refrigeration systems and technical services to markets in Asia, the Middle East and Latin America.

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 from continuing operations before income taxes and minority interests excluding net financing charges and restructuring costs. 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 June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Building efficiency				
North America systems	$ 563	$ 605	$ 1,671	$ 1,680
North America service	552	626	1,610	1,749
North America unitary products	227	235	477	550
Global workplace solutions	708	785	2,095	2,347
Europe	517	716	1,587	1,997
Rest of world	600	710	1,779	1,897
	3,167	3,677	9,219	10,220
Automotive experience				
North America	988	1,681	3,279	5,199
Europe	1,706	2,705	4,478	7,657
Asia	262	402	775	1,171
	2,956	4,788	8,532	14,027
Power solutions	856	1,400	2,879	4,508
Total net sales	$ 6,979	$ 9,865	$ 20,630	$ 28,755

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

	Segment Income			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Building efficiency				
North America systems	$ 63	$ 80	$ 173	$ 192
North America service	58	76	129	144
North America unitary products	(2)	3	(227)	(20)
Global workplace solutions	10	16	24	45
Europe	12	38	36	78
Rest of world	49	88	124	202
	190	301	259	641
Automotive experience				
North America	(34)	47	(370)	82
Europe	3	139	(238)	334
Asia	17	13	(10)	16
	(14)	199	(618)	432
Power solutions	106	145	212	399
Total segment income (loss)	$ 282	$ 645	$ (147)	$ 1,472
Net financing charges	(65)	(69)	(167)	(204)
Restructuring costs			(230)	
Income (loss) before income taxes and minority interests	$ 217	$ 576	$ (544)	$ 1,268

19. Commitments and Contingencies

The Company accrues for potential environmental losses in a manner consistent with U.S. GAAP; that is, when it is probable a loss has been incurred and the amount of the loss is reasonably estimable. 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 has no reason to believe at the present time 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 suits 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.

A significant portion of the Company s sales are to customers in the automotive industry. Continued adverse developments in the North American or European automotive industries could impact the Company s liquidity position and/or require additional restructuring of the Company s operations or impairment charges. In addition, a prolonged downturn in the automotive market may likely impact certain vendors financial solvency, including the ability to meet restrictive debt covenants, resulting in potential liabilities or additional costs to the Company to ensure uninterrupted supply to its customers.

Table of Contents

Johnson Controls, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

20. Subsequent Events

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, which requires disclosure of the date through which subsequent events have been evaluated, as well as whether the date is the date the financial statements were issued or the date the financial statements were available to be issued. The Company has evaluated subsequent events through August 3, 2009, the date the financial statements were issued. Except as disclosed in Note 16, Fair Value Measurements, the Company noted no other significant subsequent events have occurred through this date requiring adjustment to the financial statements or disclosures.

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, 2009 and 2008, and the related consolidated statements of income and the condensed consolidated statements of cash flows for the three-month and nine-month periods ended June 30, 2009 and 2008. 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, 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 have 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, 2008, and the related consolidated statements of income, shareholders equity, and cash flows for the year then ended (not presented herein), and in our report dated November 25, 2008 we expressed an unqualified opinion on those consolidated financial statements. An explanatory paragraph was included in our report for the adoption of FASB Interpretation Number (FIN) 48, Accounting for uncertainty in Income Taxes an interpretation of FASB Statement No. 109 and Statement of Financial Accounting Standards No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R). In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of September 30, 2008, 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, 2009

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 Repo 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, estima forecast, outlook, intend, strategy, plan, may, should, will, would, will be, will continue, will 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 our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 9, 2009. 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), nickel-metal-hydride and lithium-ion battery technologies to power hybrid vehicles.

Table of Contents

The following information should be read in conjunction with the September 30, 2008 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 2008 Annual Report on Form 10-K. References in the following discussion and analysis to Three Months refer to the three months ended June 30, 2009, compared to the three months ended June 30, 2008, while references to Year-to-Date refer to the nine months ended June 30, 2009, compared to the nine months ended June 30, 2008.

Outlook

The global economic environment remained unstable through the third quarter of fiscal 2009. The automotive industry experienced extended production shut-downs in North America as a result of bankruptcy filings by both General Motors Corporation (GM) and Chrysler LLC (Chrysler) during the quarter. Through the first three quarters of fiscal 2009, automotive production has declined by a double digit rate in North America and Europe compared to the similar period in 2008, with virtually every automotive manufacturer affected. There are signs indicating the automotive markets are beginning to stabilize, such as improving credit availability for car buyers. In Europe, government support programs have increased sales of smaller vehicles in that region. Additionally, automotive production in China has increased in fiscal 2009 compared to fiscal 2008, and the government support program in the U.S. is expected to stimulate automotive sales in the U.S. Therefore, we expect our automotive experience business to be profitable in the fourth quarter of fiscal 2009.

The softening in the commercial construction market is primarily concentrated in the office, retail and lodging sectors whereas, institutional buildings such as government, healthcare and education, which are the primary focus of our building efficiency business, remained the strongest sectors of new construction. Due to the uncertain economic environment, some commercial customers have deferred service and maintenance work, and there have been delays in energy efficiency projects pending clarification of government stimulus funding guidelines. In spite of this, we believe that we are well-positioned to benefit from future potential government energy efficiency programs.

We are working to reduce our variable and fixed costs in response to the general economic decline. In the fourth quarter of fiscal 2008 and in the second quarter of fiscal 2009, we announced restructuring plans intended to improve our cost structure and rebalance production within each regional footprint. We have seen some benefit from these plans in the third quarter of fiscal 2009 and expect greater benefits from these initiatives in the fourth quarter of fiscal 2009. Despite the decline in automotive production, we believe that power solutions is well positioned with its strong global market share in the more stable aftermarket sector.

Liquidity and Capital Resources

The Company believes its capital resources and liquidity position at June 30, 2009, are adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, minimum pension contributions, debt maturities and any potential acquisitions in fiscal 2009 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 has experienced uninterrupted access in the U.S. commercial paper market, while the euro market periodically closes for the Company and other U.S. multinationals. 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. Further downgrades in the Company s credit rating could negatively impact its access to the commercial paper market. In the event the Company is unable to issue commercial paper, it would have the ability to draw on its $2.05 billion revolving credit facility, which extends until December 2011. The Company does not have any significant debt maturities until fiscal 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 stockholders equity of at least $1.31 billion at all times and allow a maximum aggregated amount of 10% of consolidated stockholders equity for liens and pledges. For purposes of calculating the Company s covenants, consolidated stockholders equity is calculated without giving effect to (i) the application of the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 106, Employers Accounting for Postretirement

Benefits Other Than Pensions or (ii) the cumulative foreign currency translation adjustment. As of June 30, 2009, consolidated stockholders equity as defined per our covenants was $7.8 billion and there were no outstanding amounts for liens and pledges. The Company expects to be in compliance with all covenants and other requirements set forth in its credit agreements and indentures in 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.
The key financial assumptions used in calculating the 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. Our most recent actuarial valuation utilized an expected rate of return of 8.5% and 5.5% for U.S. and non-U.S. plans, respectively. Given the recent credit market crisis and losses in equity markets, the Company anticipates the actual rate of return will likely be well below these rates in fiscal 2009. However, the Company still believes the long-term rate of return will approximate 8.5% and 5.5% 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. Based on the current funded status of its defined benefit plans in the U.S., the Company s minimum funding requirements for the remainder of fiscal 2009, and through the first quarter of fiscal 2010, is approximately $21 million per quarter. The Company also monitors its non-U.S. plans funded status and meets all minimum funding requirements. The Company is reviewing the annual incremental funding requirements for its non-U.S. plans resulting from the recent global equity market performance to determine if additional funding is required. In fiscal 2009, the Company made discretionary pension contributions of approximately $75 million.

Segment Analysis

Management evaluates the performance of its business units based primarily on segment income, which is defined as income from continuing operations before income taxes and minority interests excluding net financing charges and restructuring costs.

Summary

	Three Months Ended June 30,			Nine Months Ended June 30,		
(in millions)	2009	2008	Change	2009	2008	Change
Net sales	$6,979	$9,865	-29%	$20,630	$28,755	-28%
Segment income	282	645	-56%	(147)	1,472	*

* Measure not meaningful

Three Months:

The $2.9 billion decrease in consolidated net sales was primarily due to lower sales in the automotive experience business ($1.5 billion) as a result of significantly reduced industry production levels by all our major original equipment manufacturers (OEM s) primarily in North America and Europe, the unfavorable impact of foreign currency translation ($684 million), the impact of lower lead costs on pricing and lower sales volumes in the power solutions business ($455 million) and lower net sales in the building efficiency business ($252 million) primarily due to lower technical services demand as customers continue to defer routine maintenance and equipment retrofit projects.

The $363 million decrease in segment income was primarily due to lower volumes across all businesses ($375 million) and the unfavorable effects of foreign currency translation ($35 million), offset by lower SG&A costs ($47 million), including the benefits from cost reduction initiatives.

Year-to-Date:

The $8.1 billion decrease in consolidated net sales was primarily due to lower sales in the automotive experience business ($4.5 billion) as a result of significantly reduced industry production levels by all our major OEM s primarily in North America and Europe, the unfavorable impact of foreign currency

31

translation ($1.9 billion), and in the power solutions business, primarily the impact of lower lead costs on pricing and lower sales volumes ($1.4 billion).

The $1.6 billion decrease in segment income was primarily due to lower volumes mainly in the automotive experience business as a result of significantly reduced industry production volumes, lead costs not recovered through pricing, first quarter impairment charges recorded on an equity investment ($152 million) in the building efficiency North American unitary products segment and certain fixed asset impairment charges recorded in the automotive experience North America and Europe segments ($77 million and $33 million, respectively) and the unfavorable impact of foreign currency translation ($110 million).

Building Efficiency — Net Sales

	Three Months Ended June 30,			Nine Months Ended June 30,		
(in millions)	2009	2008	Change	2009	2008	Change
North America systems	$ 563	$ 605	-7%	$ 1,671	$ 1,680	-1%
North America service	552	626	-12%	1,610	1,749	-8%
North America unitary products	227	235	-3%	477	550	-13%
Global workplace solutions	708	785	-10%	2,095	2,347	-11%
Europe	517	716	-28%	1,587	1,997	-21%
Rest of world	600	710	-15%	1,779	1,897	-6%
	$ 3,167	$ 3,677	-14%	$ 9,219	$ 10,220	-10%

Three Months:

The decrease in North America systems was primarily due to lower volumes of control systems and equipment in the commercial construction and replacement markets ($36 million) and the unfavorable impact from foreign currency translation ($6 million).

The decrease in North America service was primarily due to lower truck-based business ($87 million) and the unfavorable impact of foreign currency translation ($8 million), partially offset by higher volumes in energy solutions ($21 million).

The decrease in North America unitary products was primarily due to a depressed U.S. residential market, which impacts the demand for HVAC equipment in new construction housing starts.

The decrease in global workplace solutions was primarily due to the unfavorable impact of foreign currency translation ($96 million), partially offset by new business in Europe.

The decrease in Europe reflects the unfavorable impact of foreign currency translation ($127 million) and lower control systems and product demand across the region.

The decrease in rest of world was due to volume decreases mainly in Latin America ($56 million) and Asia ($35 million) and the unfavorable impact of foreign currency translation ($19 million).

Year-to-Date:

The decrease in North America systems was primarily due to the unfavorable impact of foreign currency translation ($21 million), partially offset by the impact of prior year acquisitions ($12 million).

The decrease in North America service was primarily due to lower truck-based business ($169 million) and the unfavorable impact of foreign currency translation ($25 million), partially offset by increased volume of energy solutions ($55 million).

The decrease in North America unitary products was primarily due to a depressed U.S. residential market, which impacts the demand for HVAC equipment in new construction housing starts.

The decrease in global workplace solutions primarily reflects the unfavorable impact of foreign currency translation ($295 million) and lower volume of pass through contracts in Europe and Asia, partially offset by higher volumes in North America and new business in Europe.

Table of Contents

The decrease in Europe reflects primarily the unfavorable impact of foreign currency translation ($325 million) and a reduction in control systems and products and specialty volumes.

The decrease in rest of world is due to volume decreases in Latin America ($77 million) and Asia ($28 million) and the unfavorable impact of foreign currency translation ($33 million), partially offset by higher volumes in the Middle East and other markets ($20 million).

Building Efficiency Segment Income

	Three Months Ended June 30,			Nine Months Ended June 30,		
(in millions)	2009	2008	Change	2009	2008	Change
North America systems	$ 63	$ 80	-21%	$ 173	$ 192	-10%
North America service	58	76	-24%	129	144	-10%
North America unitary products	(2)	3	*	(227)	(20)	*
Global workplace solutions	10	16	-38%	24	45	-47%
Europe	12	38	-68%	36	78	-54%
Rest of world	49	88	-44%	124	202	-39%
	$ 190	$ 301	-37%	$ 259	$ 641	-60%

* Measure not meaningful

Three Months:

The decrease in North America systems was primarily due to lower volumes ($10 million), unfavorable margin rates ($9 million) and the unfavorable impact of foreign currency translation ($1 million), partially offset by lower SG&A expenses ($3 million).

The decrease in North America service was primarily due to lower volumes in truck-based services ($19 million) and the unfavorable impact of foreign currency translation ($1 million), offset by lower SG&A expenses ($2 million).

The decrease in North America unitary products was primarily due to the decline in sales volumes and unfavorable margin rates due primarily to unfavorable factory absorption.

The decrease in global workplace solutions is primarily due to the unfavorable impact of foreign currency translation ($3 million) and lower margins ($3 million) due primarily to lower initial margins on new business.

The decrease in Europe was primarily due to lower margin rates on lower sales volumes ($38 million) and the unfavorable impact of foreign currency translation ($7 million), partially offset by lower SG&A costs ($19 million) due in part to the benefits of cost reduction initiatives.

The decrease in rest of world was primarily due to lower overall sales volumes, offset by the impact of foreign currency translation ($1 million) and lower SG&A expenses.

Year-to-Date:

The decrease in North America systems was primarily due to lower volumes, unfavorable margin rates, and the unfavorable impact of foreign currency translation ($1 million), partially offset by lower SG&A expenses.

The decrease in North America service was primarily due to lower volumes, partially offset by lower SG&A expenses.

The decrease in North America unitary products was primarily due to an equity investment impairment charge ($152 million), the decline in sales volumes, and inventory and related charges ($20 million).

The decrease in global workplace solutions was primarily due to higher bad debt expense due to a customer bankruptcy ($4 million), unfavorable mix in North America ($8 million), and the unfavorable impact of foreign currency translation ($9 million).

Table of Contents

The decrease in Europe was primarily due to lower volumes ($59 million) and the unfavorable impact of foreign currency translation ($17 million), partially offset by lower SG&A expenses ($34 million) due in part to the benefits of cost reduction initiatives.

The decrease in rest of world was primarily due to lower volumes, a gain on the sale of a business in the prior year ($6 million), the impact of foreign currency on imported products sold in Latin America and higher SG&A expense for investments in other regions, partially offset by the favorable impact of foreign currency translation ($1 million).

Automotive Experience Net Sales

(in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Change	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2008	Change
North America	$ 988	$ 1,681	-41%	$ 3,279	$ 5,199	-37%
Europe	1,706	2,705	-37%	4,478	7,657	-42%
Asia	262	402	-35%	775	1,171	-34%
	$ 2,956	$ 4,788	-38%	$ 8,532	$ 14,027	-39%

Three Months:

The decrease in North America was primarily due to the significantly reduced industry production volumes, partially offset by increased sales resulting from the acquisition of the interior product assets of Plastech Engineered Products, Inc. in July 2008 ($97 million).

The decrease in Europe was primarily due to lower production volumes across all customers ($679 million) and the unfavorable impact of foreign currency translation ($320 million).

The decrease in Asia was primarily due to lower production volumes ($123 million) and the unfavorable impact of foreign currency translation ($17 million).

Year-to-Date:

The decrease in North America was primarily due to the significantly reduced industry production volumes by all the Company s major OEMs ($2.2 billion), partially offset by the acquisition of the interior product assets of Plastech Engineered Products, Inc. in July 2008, which had a favorable impact of $299 million.

The decrease in Europe was primarily due to lower industry production volumes across all customers ($2.3 billion) and the unfavorable impact of foreign currency translation ($896 million).

The decrease in Asia was primarily due to lower production volumes mainly in Korea and Japan ($299 million) and the unfavorable impact of foreign currency translation ($97 million).

Automotive Experience Segment Income

(in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Change	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2008	Change
North America	$ (34)	$ 47	*	$ (370)	$ 82	*
Europe	3	139	-98%	(238)	334	*
Asia	17	13	31%	(10)	16	*
	$ (14)	$ 199	*	$ (618)	$ 432	*

* Measure not meaningful

Table of Contents

Three Months:

The decrease in North America was primarily due to lower industry production volumes ($130 million), partially offset by lower net engineering costs ($30 million) as a result of delays in customer programs and favorable SG&A costs ($19 million) due to the benefits of cost reduction initiatives.

The decrease in Europe was primarily a result of lower industry production volumes ($158 million), the unfavorable impact of foreign currency translation ($18 million), partially offset by lower operating costs ($29 million) and favorable SG&A expense ($11 million) due to the benefits of cost reduction initiatives.

The increase in Asia was primarily due to higher equity income at our joint ventures mainly in China ($7 million), reduced SG&A costs ($5 million) including the benefits of cost reduction initiatives and lower net engineering costs ($4 million), partially offset by lower volumes ($11 million) and the unfavorable impact of foreign currency translation ($1 million).

Year-to-Date:

The decrease in North America was primarily due to lower industry production volumes ($462 million) and an impairment charge on fixed assets in the first quarter ($77 million). These increases were partially offset by lower engineering expenses ($44 million) and SG&A costs ($43 million) including the benefits of cost reduction initiatives.

The decrease in Europe was primarily a result of lower industry production volumes ($480 million), an impairment charge on fixed assets in the first quarter ($33 million), the unfavorable impact of foreign currency translation ($60 million), and pricing and increased material costs ($23 million). These increases were partially offset by lower engineering expenses ($13 million) and SG&A costs ($11 million), including the benefits of cost reduction initiatives.

The decrease in Asia is primarily due to lower volumes ($35 million) and the unfavorable impact of foreign currency translation ($7 million), partially offset by higher equity income at our joint ventures mainly in China ($7 million), lower SG&A costs ($6 million) including the benefits of cost reduction initiatives, and lower net engineering costs ($3 million).

Power Solutions

	Three Months Ended June 30,			Nine Months Ended June 30,		
(in millions)	2009	2008	Change	2009	2008	Change
Net sales	$856	$1,400	-39%	$2,879	$4,508	-36%
Segment income	106	145	-27%	212	399	-47%

Three Months:

Net sales decreased primarily due to the impact of lower lead costs on pricing ($434 million), lower sales volumes particularly to OEM s ($112 million) and the unfavorable impact of foreign currency translation ($89 million), partially offset by improved price/product mix ($91 million).

Segment income decreased primarily due to lower volumes ($18 million), a nonrecurring charge related to the disposal of a former manufacturing facility in Europe and other assets ($15 million), the unfavorable impact of foreign currency translation ($5 million), and other nonrecurring items recorded in the prior year ($10 million), partially offset by favorable pricing net of higher lead and other commodity costs ($4 million) and lower SG&A expense ($5 million).

Year-to-Date:

Net sales decreased primarily due to the impact of lower lead costs on pricing ($1.3 billion), lower sales volumes ($359 million) and the unfavorable impact of foreign currency translation ($227 million), partially offset by improved price/product mix ($225 million).

Table of Contents

Segment income decreased due to lower volumes ($62 million), the unfavorable impact of foreign currency translation ($16 million), a nonrecurring charge in the third quarter related to the disposal of a former manufacturing facility in Europe and other assets ($15 million), other nonrecurring items recorded in the prior year ($10 million), and the negative impact of lead and other commodity costs not fully recovered through pricing ($102 million), which includes a $62 million out of period adjustment as discussed in Note 1 to the financial statements. The out of period adjustment was determined to be a partial factor for the amount we disclosed in the first quarter regarding our inability to recover all of our costs through our normal pricing agreements. Partially offsetting these factors was lower SG&A expenditures due to cost containment measures ($14 million) and higher equity income from joint ventures ($4 million).

Restructuring Costs

To further 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 relates to cost reduction initiatives in the Company s automotive experience, building efficiency and power solutions businesses and includes workforce reductions and plant consolidations. The Company expects to substantially complete the 2009 Plan by the end of 2010. The automotive-related restructuring actions target excess manufacturing capacity resulting from lower industry production in the European, North American and Japanese automotive markets. The restructuring actions in building efficiency are 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 are focused on optimizing its manufacturing capacity as a result of lower overall demand for original equipment batteries resulting from lower vehicle production levels.

The 2009 Plan includes workforce reductions of approximately 6,400 employees (2,900 for automotive experience North America, 1,900 for automotive experience Europe, 600 for automotive experience Asia, 200 for building efficiency North America, 400 for building efficiency Europe, 100 for building efficiency rest of world, and 300 for power solutions). Restructuring charges associated with employee severance and termination benefits are to be 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, 2009, approximately 3,700 employees have been separated from the Company pursuant to the 2009 Plan. In addition, the 2009 Plan includes 9 plant closures (3 for automotive experience North America, 1 for automotive experience Europe, 3 for automotive experience Asia, 1 for building efficiency rest of world, and 1 for power solutions). As of June 30, 2009, none of the plants have been closed. The portion of the restructuring charge for the impairment of long-lived assets associated with the plant closures was determined using fair value based on a discounted cash flow analysis.

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 relates to cost reduction initiatives in its automotive experience, building efficiency and power solutions businesses and includes workforce reductions and plant consolidations. The Company expects to substantially complete the 2008 Plan by early 2010. The automotive-related restructuring is in response to the changing fundamentals of the European and North American automotive markets. The actions target 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 are 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 are focused on optimizing its regional manufacturing capacity.

The 2008 Plan includes workforce reductions of approximately 9,400 employees (3,700 for automotive experience North America, 3,400 for automotive experience Europe, 400 for building efficiency North America, 1,000 for building efficiency Europe, 400 for building efficiency rest of world and 500 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, 2009, approximately 7,200 employees have been separated from the Company pursuant to the 2008 Plan. In addition, the 2008 Plan includes 21 plant closures (9 for automotive experience North America, 9 for automotive experience Europe, 1 for building efficiency North America, and 2 for power solutions). As of June 30, 2009, 10 of the 21 plants have been closed. The portion of the restructuring charge for the impairment of long-lived assets associated with the plant closures was determined using fair value based on a discounted cash flow analysis.

Net Financing Charges

	Three Months Ended June 30,			Nine Months Ended June 30,		
(in millions)	2009	2008	Change	2009	2008	Change
Net financing charges	$65	$69	-6%	$167	$204	-18%

The decrease in net financing charges in the three and nine month periods is due to lower borrowing costs and net foreign currency exchange gains on financing operations.

Provision for Income Taxes

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2009	2008	2009	2008
Tax provision	$ 50	$ 121	$ 109	$ 266
Effective tax rate	23.0%	21.0%	-20.0%	21.0%
Estimated annual base effective tax rate	27.0%	21.0%	27.0%	21.0%

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 2009, the Company decreased its estimated annual effective income tax rate for continuing operations from 31% to 27%, primarily due to a geographical shift in income and global tax planning initiatives. Because there is a cumulative year-to-date loss, this created a tax expense increase of $11 million in the current quarter after applying the new effective rate to the provision in the prior two quarters.

In the third quarter of fiscal 2009, 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 the Brazil power solutions entity would be utilized. Therefore, the Company released $10 million of valuation allowances, of which $3 million was a decrease in income tax expense with the remaining amount impacting the statement of financial position.

In the third quarter of fiscal 2009, as a result of various entities exiting business in certain jurisdictions and certain recent events related to prior tax planning initiatives, the Company reduced the reserve for uncertain tax positions by $33 million. This is comprised of a $17 million decrease to tax expense and a $16 million decrease to goodwill.

In the second quarter of fiscal 2009, 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 asset associated with a capital loss would be utilized. Therefore, the Company released $45 million of valuation allowances against the income tax provision.

In the second quarter of fiscal 2009, the Company recorded a $27 million discrete period tax adjustment related to the second quarter 2009 restructuring costs using a blended statutory tax rate of 19.2%. Due to

Table of Contents

the tax rate change in the third quarter of fiscal 2009, the discrete period tax adjustment decreased by $9 million for a total tax adjustment for the nine months ended June 30, 2009 of $18 million.

In the second quarter of fiscal 2009, the Company filed a claim for refund with the Internal Revenue Service related to interest computations of prior tax payments and refunds. The refund claim resulted in a tax provision decrease of $6 million.

In the second quarter of fiscal 2009, the Company recorded a $30 million discrete period tax benefit related to a change in tax status of a French subsidiary resulting from a voluntary tax election.

In the first quarter of fiscal 2009, the Company performed an analysis of its worldwide deferred tax assets. As a result of the rapid deterioration of operating results in various jurisdictions around the world, it was determined that it was more likely than not that the deferred tax assets would not be utilized in several jurisdictions including France, Mexico, Spain and the United Kingdom. Therefore, the Company recorded a $300 million valuation allowance as income tax expense.

In the first quarter of fiscal 2009, the Company recorded a $30 million discrete period tax adjustment related to first quarter 2009 impairment costs using a blended statutory tax rate of 12.6%. Due to the effective tax rate change in the second quarter of fiscal 2009, the discrete period tax adjustment increased by $18 million for a total tax adjustment of the six months ended March 31, 2009 of $48 million. Due to the effective tax rate change in the third quarter of fiscal 2009, the discrete period tax adjustment decreased by $9 million for a total tax adjustment for the nine months ended June 30, 2009 of $39 million.

Net Income

	Three Months Ended June 30,			Nine Months Ended June 30,		
(in millions)	2009	2008	Change	2009	2008	Change
Net income (loss)	$163	$439	-63%	$(638)	$963	*

* Measure not meaningful

The decrease in net income for the three months ended June 30, 2009, was primarily due to lower volumes primarily in the automotive experience business, lead costs not recovered through pricing, the unfavorable effects of foreign currency translation, partially offset by a decrease in the provision for income taxes, lower minority interest earnings and a decrease in net financing charges.

The decrease in net income for the nine months ended June 30, 2009, was primarily due to lower volumes mainly in the automotive experience business, lead costs not recovered through pricing, first quarter impairment charges recorded on an equity investment in the North American unitary products group in building efficiency and certain fixed assets in the automotive experience North America and Europe segments, the second quarter fiscal 2009 restructuring charge and the unfavorable impact of foreign currency translation, partially offset by a decrease in the provision for income taxes, lower minority interest earnings and a decrease in net financing charges.

Backlog

Building efficiency s backlog relates to its control systems and service activity. At June 30, 2009, the unearned backlog was $4.4 billion, or a 9% decrease compared to June 30, 2008. Excluding the negative impact of foreign currency, the backlog was lower by 6% at June 30, 2009 compared to June 30, 2008. The North America backlog was comparable to prior year levels, while there was a double-digit decline in Europe and the Middle East.

Table of Contents

Financial Condition

Working Capital

(in millions)	June 30, 2009	September 30, 2008	Change	June 30, 2008	Change
Working capital	$1,030	$ 1,225	-16%	$1,983	-48%
Accounts receivable	4,910	6,472	-24%	6,647	-26%
Inventories	1,561	2,099	-26%	2,292	-32%
Accounts payable	3,741	5,225	-28%	5,179	-28%

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.

The decrease in working capital as compared to September 30, 2008 is primarily due to lower accounts receivable and lower inventories from lower sales volumes, partially offset by lower accounts payable due to the timing of supplier payments and lower purchasing activity, and the restructuring reserves recorded in the second quarter of fiscal 2009. Compared to June 30, 2008, the decrease is primarily due to lower accounts receivable and lower inventories from lower sales volumes, partially offset by lower accounts payable due to the timing of supplier payments and lower purchasing activity, and the restructuring reserves recorded in the fourth quarter of fiscal 2008 and in the second quarter of fiscal 2009.

The Company s days sales in accounts receivable (DSO) for the three months ended June 30, 2009 were 58, consistent with the comparable periods ended September 30, 2008 and June 30, 2008. There has been no significant deterioration in the aging of accounts receivable at June 30, 2009 compared to September 30, 2008 and June 30, 2008, and there has been no significant change in the Company s revenue recognition policies. The decrease in accounts receivable compared to September 30, 2008 and June 30, 2008 is due to lower sales volumes.

The Company s inventory turns for the three months ended June 30, 2009 were slightly lower than the period ended September 30, 2008 mainly due to slower moving inventory in the building efficiency business. Inventory turns were higher compared to June 30, 2008, due to improvements in inventory management.

Days payable at June 30, 2009 was 71 days compared to 73 days at September 30, 2008 and 65 days at June 30, 2008. The change was mainly due to the timing of payments.

Cash Flows

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2009	2008	2009	2008
Net cash provided by operating activities	$ 494	$ 552	$ 359	$1,028
Net cash used by investing activities	(139)	(288)	(674)	(776)
Net cash provided (used) by financing activities	(123)	(241)	474	(670)
Capital expenditures	103	190	529	551

The decrease in net cash provided by operating activities in the three months ended June 30, 2009 was primarily due to lower net income in the quarter, unfavorable working capital changes in accounts payable and accrued income taxes, partially offset by favorable working capital changes in accounts receivable and inventory. For the nine months ended June 30, 2009, the decrease in net cash provided by operating activities was due to the cumulative net loss for the period, unfavorable working capital changes in accounts payable and accrued income taxes, partially offset by favorable working capital changes in accounts receivable and inventories.

The decrease in net cash used by investing activities for the three months ended June 30, 2009 was due to lower capital expenditures and the impact of the settlement of cross-currency interest rate swaps in the prior year. For the nine months ended June 30, 2009, the decrease in net cash used by investing activities was due to lower capital expenditures, the settlement of cross-currency interest rate swaps and higher business acquisition costs in the prior year, partially offset by unfavorable recoverable customer engineering expenditures due to timing and an increase in long-term investments.

The decrease in net cash used by financing activities for the three months ended June 30, 2009 was primarily the result of lower debt repayments. The increase in net cash provided by financing activities for the nine months ended June 30, 2009 was primarily the result of an increase in long-term debt, partially offset by debt repayments.

The decrease in capital spending for property, plant and equipment in the three and nine months ended June 30, 2009 was primarily due to delaying nonessential capital projects due to current uncertain economic conditions.

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 is 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.

The Company has certain subsidiaries, mainly located in Brazil, France, Italy, Mexico, Spain, United Kingdom and the United States, which have generated operating and/or capital losses and, in certain circumstances, have limited loss carryforward periods. In accordance with SFAS No. 109, Accounting for 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.

In the third quarter of fiscal 2009, 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 the Brazil power solutions entity would be utilized. Therefore, the Company released $10 million of valuation allowances in the three month period ended June 30, 2009. This is comprised of a $3 million decrease in income tax expense with the remaining amount impacting the statement of financial position.

In the second quarter of fiscal 2009, 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 asset associated with a capital loss would be utilized. Therefore, the Company released $45 million of valuation allowances against the income tax provision in the three month period ended March 31, 2009.

In the first quarter of fiscal 2009, the Company performed an analysis of its worldwide deferred tax assets. As a result of the rapid deterioration in the economic environment, several jurisdictions incurred unexpected losses in the first quarter that resulted in cumulative losses over the prior three years. 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 would not be utilized in several jurisdictions including France, Mexico, Spain and the United Kingdom. Therefore, the Company recorded $300 million of valuation allowances as income tax expense. To the extent the Company improves its underlying operating results in these jurisdictions, these valuation allowances, or a portion thereof, could be reversed in future periods.

Table of Contents

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 SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 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.

In the third quarter of fiscal 2009, the Company concluded it had a triggering event requiring assessment of impairment of its long-lived assets in light of the restructuring plans in North America announced by Chrysler and GM during the quarter as part of their bankruptcy reorganization plans. As a result, the Company reviewed its long-lived assets for the Chrysler and GM platforms within the North America automotive experience segment and determined no impairment existed.

In the second quarter of fiscal 2009, the Company concluded it had a triggering event requiring assessment of impairment of its long-lived assets in conjunction with its restructuring plan announced in March 2009. As a result, the Company reviewed its long-lived assets associated with the plant closures for impairment and recorded a $46 million impairment charge in the second quarter of fiscal 2009, of which $25 million related to the North America automotive experience segment, $16 million related to the Asia automotive experience segment and $5 million related to the Europe automotive experience segment. Refer to Note 8, Restructuring Costs, for further information regarding the 2009 restructuring plan. Additionally, at March 31, 2009, in conjunction with the preparation of its financial statements, the Company concluded it had a triggering event requiring assessment of its other long-lived assets within the European automotive experience segment due to significant declines in European automotive sales volumes. As a result, the Company reviewed its other long-lived assets within the Europe automotive experience segment for impairment and determined no additional impairment existed.

At December 31, 2008, in conjunction with the preparation of its financial statements, the Company concluded it had a triggering event requiring assessment of impairment of its long-lived assets due to the significant declines in North American and European automotive sales volumes. As a result, the Company reviewed its long-lived assets for impairment and recorded a $110 million impairment charge in the first quarter of fiscal 2009, of which $77 million related to the North America automotive experience segment and $33 million related to the Europe automotive experience segment.

The Company reviews its equity investments for impairment whenever there is a loss in value of an investment which is other than a temporary decline. The Company conducts its equity investment impairment analyses in accordance with the Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. APB Opinion No. 18 requires the Company to record an impairment charge for a decrease in value of an investment when the decline in the investment is considered to be other than temporary.

At December 31, 2008, in conjunction with the preparation of its financial statements, the Company concluded it had a triggering event requiring assessment of impairment of its equity investment in a 48%-owned joint venture with U.S. Airconditioning Distributors, Inc. (U.S. Air) due to the significant decline in North American residential housing construction starts, which has significantly impacted the financial results of the equity investment. The Company reviewed its equity investment in U.S. Air for impairment and as a result, recorded a $152 million impairment charge within its North America unitary products segment in the first quarter of fiscal 2009.

The Company reviews goodwill for impairment annually or more frequently if events or changes in circumstances indicate that 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, using a fair-value method based on management s judgments and assumptions or third party valuations. The fair value represents the amount at which a reporting unit could be bought or sold in a current transaction between willing parties on an arms-length basis.

Table of Contents

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. The estimated fair value is then compared with the carrying amount of the reporting unit, including recorded goodwill. At March 31, 2009, in conjunction with the preparation of its financial statements, the Company concluded it had a triggering event requiring the assessment of impairment of goodwill in the automotive experience Europe segment due to the continued decline in that automotive market. As a result, the Company performed impairment testing for goodwill and determined that fair value of the reporting unit exceeded its carrying value and no impairment existed at March 31, 2009.

At December 31, 2008, in conjunction with the preparation of its financial statements, the Company concluded it had a triggering event requiring the assessment of impairment of goodwill in the automotive experience North America and Europe segments and the building efficiency unitary products group segment due to the rapid declines in the automotive and construction markets. As a result, the Company performed impairment testing for goodwill and determined that fair values of the reporting units exceed their carrying values and no impairment existed at December 31, 2008. To further support the fair value estimates of the automotive experience North America and building efficiency unitary products group segments, the Company prepared a discounted cash flow analysis that also indicated the fair value exceeded the carrying value for each segment. The assumptions supporting the estimated future cash flows of the reporting units, including profit margins, long-term sales forecasts and growth rates, reflect the Company s best estimates. The assumptions related to automotive experience sales volumes reflect the expected continued automotive industry decline with a return to fiscal 2008 volume production levels by fiscal 2013. The assumptions related to the construction market sales volumes reflect steady growth beginning in fiscal 2010.

The Company concluded there were no other impairments as of June 30, 2009. The Company will continue to monitor developments in the automotive and North American residential heating, ventilating and air conditioning (HVAC) industries as future adverse developments in these industries could lead to additional impairment charges.

Capitalization

(in millions)	June 30, 2009	September 30, 2008	Change	June 30, 2008	Change
Total debt	$ 4,778	$ 3,944	21%	$ 4,129	16%
Shareholders equity	8,227	9,424	-13%	9,996	-18%
Total capitalization	$ 13,005	$ 13,368	-3%	$ 14,125	-8%
Total debt as a % of total capitalization	36.7%	29.5%		29.2%	

On March 16, 2009, the Company closed concurrent public offerings. The Company issued $402.5 million aggregate principal amount of senior, unsecured, fixed rate convertible notes that mature September 30, 2012. The notes are convertible into shares of the Company s common stock at a conversion rate of 89.3855 shares of common stock per $1,000 principal amount of notes, which is equal to a conversion price of approximately $11.19 per share, subject to anti-dilution adjustments. The Company also issued nine million Equity Units each of which has a stated amount of $50 in an aggregate principal amount of $450 million. The Equity Units consist of (i) a forward purchase contract obligating the holder to purchase from the Company for a price in cash of $50, on the purchase contract settlement date of March 31, 2012, subject to early settlement, a certain number of shares of the Company s common stock and (ii) a 1/20, or 5%, undivided beneficial ownership interest in $1,000 principal amount of the Company s 11.5% subordinated notes due 2042.

On February 16, 2009, the Company entered into a $50 million, three year, floating rate bilateral loan agreement. The Company drew the entire amount under the loan agreement during the course of the second quarter of fiscal 2009. Also during the second quarter of fiscal 2009, the Company retired approximately $54 million in principal amount of its $800 million fixed rate bonds that mature in January 2011. The Company used proceeds from the $50 million floating rate loan agreement to retire the bonds.

On January 17, 2009, the Company retired its 24 billion yen, three year, floating rate loan agreement that matured. The Company used proceeds from commercial paper issuances to repay amounts due under the loan agreement.

On June 1, 2008, the Company retired $200 million of York International Corporation fixed rate bonds that matured. The Company used proceeds from commercial paper issuances to repay the bonds.

In fiscal 2008, the Company entered into new 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 revolving credit facility in the amount of 50 million euro expiring in May 2010. At June 30, 2009, there were no draws on the revolving credit facilities.

On January 17, 2008 and February 1, 2008, the Company retired $500 million and $175 million, respectively, in floating rate notes and fixed rate bonds at maturity. The Company used a combination of cash, proceeds from commercial paper issuances and proceeds under the new three year, floating rate yen loan to repay the notes and bonds.

In December 2007, the Company entered into a 25 billion yen, three year, floating rate loan agreement. The Company borrowed the 25 billion yen on January 15, 2008.

In fiscal 2007, the Company entered into a five-year, $2.1 billion revolving credit facility which expires in December 2011. This facility replaced a five-year $1.6 billion revolving credit facility that would have expired in October 2010 and serves as the commercial paper backup facility. There were no draws on the committed credit line as of June 30, 2009.

The Company also selectively makes use of short-term credit lines. The Company estimates that, as of June 30, 2009, it could borrow up to $2.0 billion at its current debt ratings on committed and uncommitted credit lines.

As of June 30, 2009, the Company was in compliance with all covenants and other requirements set forth in its credit agreements and indentures, and the Company expects to be in compliance in the foreseeable future. None of the Company s debt agreements require accelerated repayment in the event of a decrease in credit ratings.

The Company believes its capital resources and liquidity position at June 30, 2009, are adequate to meet projected needs. The Company believes requirements for working capital, capital expenditures, dividends, minimum pension contributions, debt maturities and any potential acquisitions in fiscal 2009 will continue to be funded from operations, supplemented by short- and long-term borrowings, if required. The Company does not have any significant debt maturities until fiscal 2011. As such, the Company believes it has sufficient financial resources to fund operations and meet its obligations for the foreseeable future.

New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. This statement is effective for the Company in the fourth quarter of fiscal 2009 (September 30, 2009). Upon effect, the FASB Accounting Standard Codification will become the source of authoritative U.S. GAAP recognized by the FASB. The adoption of this statement will have no impact on the Company s consolidated financial condition and results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). SFAS No. 167 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 is effective for the Company beginning in the first quarter of fiscal 2011 (October 1, 2010). The Company is assessing the potential impact that the adoption on SFAS No. 167 will have on its consolidated financial condition and results of operations.

In May 2009, FASB issued SFAS No. 165, Subsequent Events. SFAS No. 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard requires disclosure of the date through which the company has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. This statement is effective for the Company in the third quarter of fiscal 2009 (June 30, 2009). Refer to Note 20, Subsequent Events, for disclosure of the Company s subsequent events for the current reporting period.

In April 2009, the FASB issued Staff Position (FSP) Financial Accounting Standards (FAS) 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP requires disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This statement was effective for the Company beginning in the third quarter of fiscal 2009 (April 1, 2009) with early adoption permitted. The Company adopted this FSP effective January 1, 2009 and determined that the impact of adoption was not material to its consolidated financial condition and results of operation. See Note 15, Derivative Instruments and Hedging Activities, and Note 16, Fair Value Measurements, for disclosure of the Company s fair value of financial instruments as of June 30, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 was effective for the Company beginning in the second quarter of fiscal 2009 (January 1, 2009). See Note 15, Derivative Instruments and Hedging Activities, for disclosure of the Company s derivative instruments and hedging activities at June 30, 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations. SFAS No. 141(R) changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141(R) will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). This standard, when adopted, will change the Company s accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method changes the accounting for transactions with minority interest holders. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009). The Company is assessing the potential impact that the adoption of SFAS No. 160 will have on its consolidated financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment to FASB Statement No. 115. SFAS No. 159 permits entities to measure certain financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company adopted this statement effective October 1, 2008 and has not elected to measure any financial assets and financial liabilities at fair value which were not previously required to be measured at fair value. The adoption of this standard has had no impact on the Company s consolidated financial condition and results of operations.

Table of Contents

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. The Company adopted this statement effective October 1, 2008. The adoption of this standard has had no material impact on the Company s consolidated financial condition and results of operation. See Note 16, Fair Value Measurements, for more information regarding the impact of the Company s adoption of SFAS No. 157. In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. The Company has not applied the provisions of SFAS No. 157 to its nonfinancial assets and nonfinancial liabilities in accordance with FSP FAS 157-2 as of June 30, 2009. The provisions of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities will be effective for the Company beginning in the first quarter of fiscal 2010 (October 1, 2009).

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

At June 30, 2009, the Company did not experience any adverse changes in market risk exposures that materially affect the quantitative and qualitative disclosures presented in the Company s Annual Report on Form 10-K for the year ended September 30, 2008.

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, 2009 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 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

There have been no significant changes in the Company s internal control over financial reporting during the three months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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, 2008, which was filed with the SEC on November 25, 2008, 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 60 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. 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 has no reason to believe at the present time 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 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 since the Company s Current Report on Form 8-K dated March 9, 2009, which amended and superseded the Company s risk factors previously presented in Item 1A to the Company s Annual Report on Form 10-K for the year ended September 30, 2008.

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

Table of Contents

beginning of the second quarter of fiscal 2009. The Company reinstituted 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.

Citibank has advised the Company that, in connection with the Swap Agreement, Citibank may purchase shares of the Company s stock in the market or in privately negotiated transactions up to an amount equal to $200 million in aggregate market value at any given time. 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, 2009.

The following table presents information regarding the repurchase of the Company s common stock by the Company and purchases of the Company s common stock by Citibank in connection with the Swap Agreement during the three months ended June 30, 2009.

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
04/1/09 - 4/30/09				
Purchases by Company (1)				$ 102,394,713
05/1/09 - 05/31/09				
Purchases by Company (1)				$ 102,394,713
06/1/09 - 06/30/09				
Purchases by Company (1)				$ 102,394,713
04/1/09 - 4/30/09				
Purchases by Citibank (2)				$ 171,389,950
05/1/09 - 05/31/09				
Purchases by Citibank (2)	550,000	$ 18.54		$ 159,043,850
06/1/09 - 06/30/09				
Purchases by Citibank (2)				$ 155,365,400

(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.

(2) Citibank may purchase shares of the Company s stock up to an amount equal to $200 million. The approximate dollar value of shares that may yet be purchased under the Citibank program fluctuates based on the market value of the Company s stock and/or sales by Citibank of the Company s stock.

ITEM 6. EXHIBITS

Reference is made to the separate exhibit index contained on page 49 filed herewith.

47

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, 2009

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

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 May 4, 2009, 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, 2009, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Financial Position, (ii) the Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Cash Flow, and (iv) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text. *

* Furnished herewith.