JOHNSON CONTROLS INC
Form 10-Q
July 29, 2016

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, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-5097

JOHNSON CONTROLS, INC.
(Exact name of registrant as specified in its charter)

Wisconsin	39-0380010
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5757 North Green Bay Avenue Milwaukee, Wisconsin	53209
(Address of principal executive offices)	(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 ¨
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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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, 2016
Common Stock: $1.00 par value per share	637,745,892

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
Johnson Controls, Inc.
Consolidated Statements of Financial Position
(in millions, except par value; unaudited)

	June 30, 2016	September 30, 2015	June 30, 2015
Assets			
Cash and cash equivalents	$467	$ 597	$213
Accounts receivable - net	6,170	5,751	5,597
Inventories	2,972	2,377	2,489
Assets held for sale	17	55	2,090
Other current assets	2,221	1,689	2,070
Current assets	11,847	10,469	12,459
Property, plant and equipment - net	6,374	5,870	5,922
Goodwill	7,093	6,824	6,850
Other intangible assets - net	1,568	1,516	1,545
Investments in partially-owned affiliates	2,665	2,143	1,339
Noncurrent assets held for sale	—	—	710
Other noncurrent assets	2,332	2,773	3,061
Total assets	$31,879	$ 29,595	$31,886
Liabilities and Equity			
Short-term debt	$2,189	$ 52	$987
Current portion of long-term debt	670	813	814
Accounts payable	5,455	5,174	4,791
Accrued compensation and benefits	1,093	1,090	969
Liabilities held for sale	—	42	1,610
Other current liabilities	3,479	3,275	2,895
Current liabilities	12,886	10,446	12,066
Long-term debt	5,139	5,745	5,734
Pension and postretirement benefits	727	767	776
Other noncurrent liabilities	2,353	1,886	2,250
Long-term liabilities	8,219	8,398	8,760
Commitments and contingencies (Note 19)			
Redeemable noncontrolling interests	251	212	220
Common stock, $1.00 par value	718	717	716
Capital in excess of par value	3,119	3,030	3,006
Retained earnings	10,575	10,838	10,656
Treasury stock, at cost	(3,639)	(3,152)	(2,788)

Accumulated other comprehensive loss	(1,174)	(1,057)	(935)
Shareholders' equity attributable to Johnson Controls, Inc.	9,599	10,376	10,655
Noncontrolling interests	924	163	185
Total equity	10,523	10,539	10,840
Total liabilities and equity	$31,879	$ 29,595	$31,886

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Net sales				
Products and systems*	$8,558	$8,681	$24,772	$25,771
Services*	958	927	2,704	2,659
	9,516	9,608	27,476	28,430
Cost of sales				
Products and systems*	6,965	7,256	20,369	21,722
Services*	664	646	1,858	1,820
	7,629	7,902	22,227	23,542
Gross profit	1,887	1,706	5,249	4,888
Selling, general and administrative expenses	(1,185)	(975)	(3,411)	(2,955)
Restructuring and impairment costs	(102)	—	(331)	—
Net financing charges	(69)	(75)	(211)	(215)
Equity income	134	91	387	275
Income from continuing operations before income taxes	665	747	1,683	1,993
Income tax provision	206	215	1,203	465
Net income from continuing operations	459	532	480	1,528
Loss from discontinued operations, net of tax	—	(325)	—	(218)
Net income	459	207	480	1,310
Income from continuing operations attributable to noncontrolling interests	76	29	177	92
Income from discontinued operations attributable to noncontrolling interests	—	—	—	4
Net income attributable to Johnson Controls, Inc.	$383	$178	$303	$1,214
Amounts attributable to Johnson Controls, Inc. common shareholders:				
Income from continuing operations	$383	$503	$303	$1,436
Loss from discontinued operations (Note 4)	—	(325)	—	(222)
Net income	$383	$178	$303	$1,214
Basic earnings (loss) per share attributable to Johnson Controls, Inc.				

Continuing operations	$0.59	$0.77	$0.47	$2.19
Discontinued operations	—	(0.50)	—	(0.34)
Net income	$0.59	$0.27	$0.47	$1.85
Diluted earnings (loss) per share attributable to Johnson Controls, Inc.				
Continuing operations	$0.59	$0.76	$0.47	$2.16
Discontinued operations	—	(0.49)	—	(0.33)
Net income	$0.59	$0.27	$0.47	$1.83

* Products and systems consist of Automotive Experience and Power Solutions products and systems and Building Efficiency installed systems. Services are Building Efficiency technical services.

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

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Johnson Controls, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(in millions; unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Net income	$459	$207	$480	$1,310
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(141)	147	(115)	(708)
Realized and unrealized gains (losses) on derivatives	4	(1)	6	(4)
Pension and postretirement plans	—	—	—	(3)
Other comprehensive income (loss)	(137)	146	(109)	(715)
Total comprehensive income	322	353	371	595
Comprehensive income attributable to noncontrolling interests	74	34	185	79
Comprehensive income attributable to Johnson Controls, Inc.	$248	$319	$186	$516

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

Johnson Controls, Inc.
Consolidated Statements of Cash Flows
(in millions; unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Operating Activities				
Net income attributable to Johnson Controls, Inc.	$383	$178	$303	$1,214
Income from continuing operations attributable to noncontrolling interests	76	29	177	92
Income from discontinued operations attributable to noncontrolling interests	—	—	—	4
Net income	459	207	480	1,310
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	235	218	680	647
Pension and postretirement benefit income	(13)	(1)	(47)	(16)
Pension and postretirement contributions	(41)	(25)	(94)	(77)
Equity in earnings of partially-owned affiliates, net of dividends received	5	(70)	(202)	(239)
Deferred income taxes	5	400	336	648
Non-cash restructuring and impairment costs	51	—	80	—
Gain on divestitures	(14)	—	(14)	(200)
Fair value adjustment of equity investment	—	—	(4)	—
Equity-based compensation	25	26	76	72
Other	(9)	1	(4)	—
Changes in assets and liabilities, excluding acquisitions and divestitures:				
Receivables	(188)	(167)	(113)	(56)
Inventories	(65)	(72)	(233)	(173)
Other assets	(181)	(27)	(47)	(134)
Restructuring reserves	1	(37)	68	(182)
Accounts payable and accrued liabilities	268	267	(43)	(189)
Accrued income taxes	(463)	(57)	(223)	(548)
Cash provided by operating activities	75	663	696	863
Investing Activities				
Capital expenditures	(279)	(264)	(822)	(820)
Sale of property, plant and equipment	14	8	28	25
Acquisition of businesses, net of cash acquired	—	—	(133)	(22)
Business divestitures, net of cash divested	14	—	54	141
Changes in long-term investments	—	1	—	(44)
Other	(3)	7	2	18
Cash used by investing activities	(254)	(248)	(871)	(702)
Financing Activities				
Increase (decrease) in short-term debt - net	945	(305)	2,085	860
Increase in long-term debt	—	299	—	299
Repayment of long-term debt	(10)	(45)	(824)	(185)
Stock repurchases	(475)	(190)	(475)	(1,000)
Payment of cash dividends	(188)	(170)	(544)	(487)
Proceeds from the exercise of stock options	14	69	34	231

Cash paid to acquire a noncontrolling interest	—	(13)	(2)	(13)
Dividends paid to noncontrolling interests	(13)	(23)	(240)	(43)
Other	1	18	6	(15)
Cash provided (used) by financing activities	274	(360)	40	(353)
Effect of exchange rate changes on cash and cash equivalents	14	(6)	5	(24)
Cash held for sale	—	—	—	20
Increase (decrease) in cash and cash equivalents	109	49	(130)	(196)
Cash and cash equivalents at beginning of period	358	164	597	409
Cash and cash equivalents at end of period	$467	$213	$467	$213

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

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Johnson Controls, Inc.
Notes to Consolidated Financial Statements
June 30, 2016
(unaudited)

1. Financial Statements

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (which include normal recurring adjustments) necessary to state 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 omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). These 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, 2015 filed with the SEC on November 18, 2015, portions of which (including Part I, Item 1. Business, and the following items from Part II of the Annual Report: Item 6. Selected Financial Data, Item 7. Management’s Discussion and Analysis and Item 8. Financial Statements and Supplementary Data) were recast in the Company's Current Report on Form 8-K filed with the SEC on March 3, 2016. The results of operations for the three and nine month periods ended June 30, 2016 are not necessarily indicative of results for the Company’s 2016 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.

Under certain criteria as provided for in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, "Consolidation," the Company may consolidate a partially-owned affiliate. To determine whether to consolidate a partially-owned affiliate, the Company first determines if the entity is a 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 rights. If the entity meets one of these characteristics, the Company then determines if it is the primary beneficiary of the VIE. The party with the power to direct activities of the VIE that most significantly impact the VIE’s economic performance and the potential to absorb benefits or losses that could be significant to the VIE is considered the primary beneficiary and consolidates the VIE. If the entity is not considered a VIE, then the Company applies the voting interest model to determine whether or not the Company shall consolidate the partially-owned affiliate.

Consolidated VIEs

Based upon the criteria set forth in ASC 810, the Company has determined that it was the primary beneficiary in three VIEs for the reporting periods ended June 30, 2016, September 30, 2015 and June 30, 2015, as the Company absorbs significant economics of the entities and has the power to direct the activities that are considered most significant to the entities.

Two of the VIEs manufacture products in North America for the automotive industry. The Company funds the entities’ short term liquidity needs through revolving credit facilities and has the power to direct the activities that are considered most significant to the entities through its key customer supply relationships.

In fiscal 2012, a pre-existing VIE accounted for under the equity method was reorganized into three separate investments as a result of the counterparty exercising its option to put its interest to the Company. The Company acquired additional interests in two of the reorganized group entities. The reorganized group entities are considered to be VIEs as the other owner party has been provided decision making rights but does not have equity at risk. The Company is considered the primary beneficiary of one of the entities due to the Company's power pertaining to decisions over significant activities of the entity. As such, this VIE has been consolidated within the Company's consolidated statements of financial position. The impact of consolidation of the entity on the Company's consolidated statements of income for the three and nine month periods ended June 30, 2016 and 2015 was not material. The VIE is named as a co-obligor under a third party debt agreement in the amount of $147 million, maturing in fiscal 2020, under which it could become subject to paying more than its allocated share of the third party debt in the event of bankruptcy of one or more of the other co-obligors. The other co-obligors, all related parties in which the Company is an equity investor, consist of the remaining group entities involved in the reorganization. As part of the overall reorganization transaction, the Company has also provided financial support to the group entities in the form of loans totaling

Johnson Controls, Inc.
Notes to Consolidated Financial Statements
June 30, 2016
(unaudited)

$62 million, which are subordinate to the third party debt agreement. The Company is a significant customer of certain co-obligors, resulting in a remote possibility of loss. Additionally, the Company is subject to a floor guaranty expiring in fiscal 2022; in the event that the other owner party no longer owns any part of the group entities due to sale or transfer, the Company has guaranteed that the proceeds received from the sale or transfer will not be less than $25 million. The Company has partnered with the group entities to design and manufacture battery components for the Power Solutions business.

The carrying amounts and classification of assets (none of which are restricted) and liabilities included in the Company's consolidated statements of financial position for the consolidated VIEs are as follows (in millions):

	June 30, 2016	September 30, 2015	June 30, 2015
Current assets	$ 265	$ 281	$ 252
Noncurrent assets	123	128	131
Total assets	$ 388	$ 409	$ 383
Current liabilities	$ 200	$ 232	$ 206
Noncurrent liabilities	31	34	35
Total liabilities	$ 231	$ 266	$ 241

The Company did not have a significant variable interest in any other consolidated VIEs for the presented reporting periods.

Nonconsolidated VIEs

As mentioned previously within the "Consolidated VIEs" section above, in fisca1 2012, a pre-existing VIE was reorganized into three separate investments as a result of the counterparty exercising its option to put its interest to the Company. The reorganized group entities are considered to be VIEs as the other owner party has been provided decision making rights but does not have equity at risk. The Company is not considered to be the primary beneficiary of two of the entities as the Company cannot make key operating decisions considered to be most significant to the VIEs. Therefore, the entities are accounted for under the equity method of accounting as the Company's interest exceeds 20% and the Company does not have a controlling interest. The Company's maximum exposure to loss includes the partially-owned affiliate investment balance of $65 million, $62 million and $62 million at June 30, 2016, September 30, 2015 and June 30, 2015, respectively, as well as the subordinated loan from the Company, third party debt agreement and floor guaranty mentioned previously within the "Consolidated VIEs" section above. Current liabilities due to the VIEs are not material and represent normal course of business trade payables for all presented periods.

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

Retrospective Changes

Effective October 1, 2015, the Company reorganized the reportable segments within its Building Efficiency business to align with its new management reporting structure and business activities. Prior to this reorganization, Building Efficiency was comprised of three reportable segments for financial reporting purposes: North America Systems and Service, Asia and Other. As a result of this change, Building Efficiency is now comprised of four reportable segments for financial reporting purposes: Systems and Service North America, Products North America, Asia and Rest of World. Historical information has been revised to reflect the new Building Efficiency reportable segments. Refer to Note 7, "Goodwill and Other Intangible Assets," and Note 18, "Segment Information," of the notes to consolidated financial statements for further information.

In November 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in the consolidated statements of financial position. During the quarter ended December 31, 2015, the Company early adopted ASU No. 2015-17 and applied the change retrospectively to all periods presented.

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The impact of all adjustments made to the June 30, 2015 consolidated statements of financial position presented is summarized in the following table (in millions):

	June 30, 2015		
	Previously Reported	Revised	Effect of Change
Consolidated Statement of Financial Position			
Other current assets	$ 2,553	$ 2,070	$ (483)
Other noncurrent assets	2,660	3,061	401
Other current liabilities	2,962	2,895	(67)
Other noncurrent liabilities	2,265	2,250	(15)

2. New Accounting Standards

Recently Adopted Accounting Pronouncements

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU No. 2014-08 limits discontinued operations reporting to situations where the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results, and requires expanded disclosures for discontinued operations. ASU No. 2014-08 was effective for the Company for the quarter ended December 31, 2015. The adoption of this guidance did not have any impact on the Company's consolidated financial statements as there were no dispositions or disposals during the quarter ended December 31, 2015.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU No. 2016-13 changes the impairment model for financial assets measured at amortized cost, requiring presentation at the net amount expected to be collected. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts. Available-for-sale debt securities with unrealized losses will now be recorded through an allowance for credit losses. ASU No. 2016-13 will be effective for the Company for the quarter ended December 31, 2020, with early adoption permitted for the quarter ended December 31, 2019. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU No. 2016-09 impacts certain aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statements of cash flows. ASU No. 2016-09 will be effective for the Company for the quarter ending December 31, 2017, with early adoption permitted. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting." ASU No. 2016-07 eliminates the requirement for an investment that qualifies for the use of the equity method of accounting as a result of an increase in the level of ownership or degree of influence to adjust the investment, results of operations and retained earnings retrospectively. ASU No. 2016-07 will be effective prospectively for the Company for increases in the level of ownership interest or degree of influence that result in the adoption of the equity method that occur during or after the quarter ending December 31, 2017, with early adoption permitted. The impact of this guidance for the Company is dependent on any future increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." ASU No. 2016-02 requires recognition of operating leases as lease assets and liabilities on the balance sheet, and disclosure of key information about leasing

arrangements. ASU No. 2016-02 will be effective retrospectively for the Company for the quarter ending December 31, 2019, with early adoption permitted. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.
In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU No. 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU No. 2016-01 will be effective for the Company for the quarter ending December 31, 2018, and early adoption is not permitted, with certain exceptions. The changes are required to be applied by means of a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory." ASU No. 2015-11 requires inventory that is recorded using the first-in, first-out method to be measured at the lower of cost or net realizable value. ASU No. 2015-11 will be effective prospectively for the Company for the quarter ending December 31, 2017, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." ASU No. 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Such investments should be disclosed separate from the fair value hierarchy. ASU No. 2015-07 will be effective retrospectively for the Company for the quarter ending December 31, 2016, with early adoption permitted. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements but will impact pension asset disclosures.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. ASU No. 2015-03 will be effective retrospectively for the Company for the quarter ending December 31, 2016, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." ASU No. 2015-02 amends the analysis performed to determine whether a reporting entity should consolidate certain types of legal entities. ASU No. 2015-02 will be effective retrospectively for the Company for the quarter ending December 31, 2016, with early adoption permitted. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 clarifies the principles for recognizing revenue when an entity either enters into a contract with customers to transfer goods or services or enters into a contract for the transfer of non-financial assets. The original standard was effective retrospectively for the Company for the quarter ending December 31, 2017; however in August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date of ASU No. 2014-09 by one-year for all entities. The new standard will become effective retrospectively for the Company for the quarter ending December 31, 2018, with early adoption permitted, but not before the original effective date. Additionally, in March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," in April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," and in May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," all of which provide additional clarification on certain topics addressed in ASU No. 2014-09. ASU No. 2016-08, ASU No. 2016-10 and ASU No. 2016-12 follow the same implementation guidelines as ASU No. 2014-09 and ASU No. 2015-14. The Company is currently assessing the impact adoption of this guidance will have on its consolidated financial statements.

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(unaudited)

3. Acquisitions and Divestitures

On October 1, 2015, the Company formed a joint venture with Hitachi to expand its Building Efficiency product offerings. The Company acquired a 60 percent ownership interest in the new entity for approximately $133 million ($563 million purchase price less cash acquired of $430 million). The purchase price, net of cash acquired, was paid in the nine months ended June 30, 2016. In connection with the acquisition, the Company recorded goodwill of $260 million related to purchase price allocations. The purchase price allocations may be subsequently adjusted to reflect final valuation studies.

In the first nine months of fiscal 2016, the Company completed one acquisition for a purchase price, net of cash acquired, of $3 million, none of which was paid as of June 30, 2016. The acquisition was not material to the Company's consolidated financial statements. In connection with the acquisition, the Company recorded goodwill of $5 million. The purchase price allocation may be subsequently adjusted to reflect the final valuation study. The acquisition increased the Company's ownership from a noncontrolling to controlling interest. As a result, the Company recorded a non-cash gain of $4 million in equity income for the Building Efficiency Rest of World segment to adjust the Company's existing equity investment in the partially-owned affiliate to fair value.

In the three months ended June 30, 2016, the Company completed a divestiture for a sales price of $16 million, $14 million of which was received as of June 30, 2016. The divestiture was not material to the Company's consolidated financial statements. In connection with the divestiture, the Company recorded a gain of $14 million within selling, general and administrative expenses on the consolidated statements of income and reduced goodwill by $3 million in the Building Efficiency Systems and Service North America segment.

In the first nine months of fiscal 2016, the Company received $40 million in cash proceeds related to prior year business divestitures.

In the first nine months of fiscal 2015, the Company completed three acquisitions for a combined purchase price, net of cash acquired, of $47 million, $18 million of which was paid in the nine months ended June 30, 2015. The acquisitions in the aggregate were not material to the Company’s consolidated financial statements. In connection with the acquisitions, the Company recorded goodwill of $9 million.

In the first nine months of fiscal 2015, the Company adjusted the purchase price allocation of the fiscal 2014 acquisition of Air Distribution Technologies Inc. (ADTi). The adjustment was made as a result of a true-up to the purchase price in the amount of $4 million, all of which was paid in the nine months ended June 30, 2015. Also, in connection with this acquisition, the Company recorded additional goodwill of $34 million in fiscal 2015 related to the purchase price allocations. In fiscal 2014, the Company recorded goodwill of $837 million in the Building Efficiency Products North America segment as a result of the ADTi acquisition.

In the three months ended March 31, 2015, the Company completed the sale of its interests in two Global Workplace Solutions (GWS) joint ventures to Brookfield Asset Management, Inc. The selling price, net of cash divested, was $141 million, all of which was received as of the nine months ended June 30, 2015. In connection with the sale, the Company recorded a $200 million gain, $127 million net of tax, within income from discontinued operations, net of tax on the consolidated statements of income and reduced goodwill in assets held for sale by $20 million.

4. Discontinued Operations

On March 31, 2015, the Company announced that it had reached a definitive agreement to sell the remainder of the GWS business to CBRE Group Inc. (CBRE), subject to regulatory and other approvals. The sale closed on September 1, 2015. The agreement includes a 10-year strategic relationship between the Company and CBRE. The Company is the preferred provider of HVAC equipment, building automation systems and related services to the portfolio of real estate and corporate facilities managed globally by CBRE and GWS. The Company also engages GWS for facility management services. The annual cash flows resulting from these activities with the legacy GWS business are not currently significant nor are they expected to become significant in the future.

Johnson Controls, Inc.
Notes to Consolidated Financial Statements
June 30, 2016
(unaudited)