

Notebook

WSJ Society

Notes: Johnson Controls, Inc/Tyco Merger

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Statement of Purpose

The sole purpose of “Notes: Johnson Controls, Inc / Tyco Merger” is to allow members of the WSJ Society to share information regarding the impending merger. Members of the Board of the society agreed that sharing information would be a valuable service to members; and that was confirmed in discussions with members at the Spring Luncheon.

Disclaimer

These notes represent a sharing of information among members. Given that, it is important to state what they are not:

1. The information here is based upon public information. There is no claim or interest to inside information regarding the merger. Further, there is no claim that the information published by the society is a comprehensive presentation of available information.
2. The WSJ Society, its Board, and the author, in society communications, are not promoting a position on the value of the merger to its members. That is for each member and shareholder to decide with advice from their tax and investment advisers.
3. Further, the WSJ Society, its Board, and the author do not claim expertise in investments, financial planning, or tax law. Their interest is simply a sharing of information among friends.

The S-4 Filing by Tyco and the [Merger Q&A posted to johnsoncontrols.com](#) repeat a warning for readers to read through a more complete presentation of the information at some specified location in the document.

It's a good warning, a thorough reading of the original documents may reveal information or an insight not evident in this document, or mistakes made here. If you find any mistakes, please pass your comment to the author for correction and sharing with other members, just sent a Message to the Editor via [Join the Discussion](#).

Situation

Some Key Points

1. The boards of Johnson Controls, Inc and Tyco International, plc have entered an agreement and plan of merger.
2. The merger is structured as an “inversion” in which Tyco will acquire Johnson Controls, change its name to “Johnson Controls, plc,” with the combined company retaining Tyco's registry in Cork, Ireland.
3. The merger is subject to approval by shareholders of both companies.
4. In the process, all Johnson Controls, Inc shares will be exchanged for shares (1-for-1); or, cash (at a fixed \$34.88 per share); or, a combination of shares and cash.
5. This is a taxable event for holders of Johnson Controls, Inc shares. Holders of JCI shares may incur a significant capital gain tax.
6. In the process, shareholders of JCI stock will be given an opportunity to select their desired share/cash compensation mix. However, actual compensation will depend upon the aggregate of shareholder elections as determined through a specified “proration” calculation.
7. As structured, the merger-inversion process requires that almost \$4 Billion be received by holders of JCI shares as cash at \$34.88 per share. That's about 17% of JCI shares outstanding. The “proration” calculation is defined to ensure this transfer.

More details of the merger-inversion are discussed in the following section.

In particular, the “proration” calculation is explored to gain a better understanding of its potential impact. **“Discussion of Consideration Calculation” (pages 13 – 15)** provides illustration of the calculation over a spectrum of aggregate elections by shareholders.

Note: The “Example Calculation” in the table on page 15 uses a JCI share price of \$40 per share. The actual impact will depend upon the share price at the time of the merger. For example, currently – June 1, 2016 @ 10:00 am, JCI share price is \$44.44 – each of the shareholder cash elections would be taken at \$9.56 below market value, not the \$5.12 shown in the table.

And, **for the case in which all shareholders elect shares**, including the example shareholder of 1,000 JCI shares, (**initial position value \$44,440**), the shareholder will actually receive 829 shares of the Johnson Controls, plc and \$5,964 cash.

If those shares retain the price of JCI shares, total value after the merger can be calculated as:

$$(829 \times \$44.44) + \$5,964 = (\$36,841) + \$5,964 = \mathbf{\$42,805}$$

The calculations at this point are all based upon assumptions. The illustration shows a significant variety of potential outcomes.

Some of the Details

On January 24, 2016, Johnson Controls, Inc. and Tyco International plc entered an Agreement and Plan of Merger ... pursuant to which they agreed to combine their respective businesses under a single company. ...

The merger is structured as a "reverse merger," in which Johnson Controls will merge with an indirect wholly owned subsidiary of Tyco, with Tyco being the parent entity of the combined company. Following the merger, Tyco will change its name to "Johnson Controls plc" (subject to the approval of the Registrar of Companies in Ireland) and is referred to as the "combined company."

(Preliminary Joint Proxy Statement/Prospectus, Dated April 4, 2016, Subject to Completion as contained in Form S-4 pages not numbered)

In the merger as structured, Johnson Controls will be acquired by a subsidiary of Tyco International, plc. This will require the sale of all shares of Johnson Controls, Inc to that subsidiary of Tyco, a company registered in Ireland. Its shares will be the shares of the combined company. Tyco will then change its name to "Johnson Controls plc."

The S-4 Form filing details approvals required for the merger to go forward. They include a vote of the shareholders of each company, Johnson Controls, Inc and Tyco International, plc.

In the merger, each share of Johnson Controls common stock (other than certain shares described in the merger agreement) will be converted into, at the election of the holder of such share, either:

- (i) one ordinary share of the combined company; or*
- (ii) \$34.88 in cash, without interest.*

*Elections by Johnson Controls shareholders for the share consideration and cash consideration will be **subject to proration procedures** set forth in the merger agreement such that Johnson Controls shareholders will receive in the aggregate approximately \$3.864 billion in cash.*

(Preliminary Joint Proxy Statement/Prospectus, Dated April 4, 2016, Subject to Completion as contained in Form S-4 pages not numbered)

In the process, each Johnson Controls shareholder will be given an opportunity to select their **desired** compensation for shares of Johnson Controls, Inc. as shares of the combined company (1 for 1), cash (\$34.88/share), or a mix of the two.

However, actual compensation may be adjusted through 'proration' to ensure that Johnson Controls shareholders receive the agreed cash payment from Tyco International, plc.

Accordingly, if you are a Johnson Controls shareholder, depending on the elections made by other Johnson Controls shareholders, you may not receive the amount of cash or the number of shares of the combined company that you request on your election form.

(Preliminary Joint Proxy Statement/Prospectus, Dated April 4, 2016, Subject to Completion as contained in Form S-4 pages not numbered)

The 'proration' calculation factors in the choices of shareholders in aggregate to adjust the actual consideration provided to each shareholder. The details of the procedure and calculation are important. (See Proration below.)

Immediately prior to the merger, Tyco shareholders will receive 0.955 ordinary shares of Tyco, which will become ordinary shares of the combined company in the merger, for each Tyco ordinary share they hold.

Tyco shareholders will receive these shares by virtue of a 0.955-for-one share consolidation.

As of [TBD], 2016, and assuming that each ordinary share of the combined company will have a value equal to the closing price of one share of Johnson Controls common stock on the New York Stock Exchange ("NYSE") on such date, the implied value of the 0.955 shares of the combined company to Tyco shareholders was approximately \$[TBD].

Because Johnson Controls' and Tyco's share prices will fluctuate between now and the closing of the merger, the value of the merger consideration to Johnson Controls shareholders and the value of the combined company ordinary shares to Tyco shareholders as of the closing date may differ from the implied value based on the share prices on [TBD], 2016 or at the time of the Johnson Controls special meeting or Tyco extraordinary general meeting.

(Preliminary Joint Proxy Statement/Prospectus, Dated April 4, 2016, Subject to Completion as contained in Form S-4 pages not numbered)

These paragraphs describe the means for consideration to holders of Tyco shares in the merger. There will be a 0.955 for 1 consolidation of Tyco shares – the shares of the combined company after the merger.

They also **assume** that the value of those shares will be priced at the closing price of Johnson Controls common stock on the date of the merger. It has been interesting to track how the market has been pricing **JCI** and **TYC** stock since the announcement of the merger. After an initial jump in Tyco share price in January, the prices of JCI and TYC seem to be loosely tracking with JCI a few dollars more than TYC.

Today, (May 1, 2016) reflects Friday's close with JCI at \$41.40 and TYC at \$38.52 a difference of \$2.88.

*After consummation of the merger, **Johnson Controls shareholders and Tyco shareholders are expected to own approximately 56% and 44%, respectively, of the issued and outstanding ordinary shares of the combined company.***

Shares of Johnson Controls common stock currently trade on the NYSE under the symbol "JCI," and Tyco ordinary shares currently trade on the NYSE under the symbol "TYC."

Following the merger, the ordinary shares of the combined company will be listed on the NYSE under the symbol "JCI."

Based on the number of Johnson Controls shares and equity awards outstanding as of [TBD], 2016, the total number of combined company shares that are expected to be issued or reserved for issuance pursuant to the merger is approximately [TBD] ordinary shares.

(Preliminary Joint Proxy Statement/Prospectus, Dated April 4, 2016, Subject to Completion as contained in Form S-4 pages not numbered)

The ownership split of the combined company impacts the status of the merger, an 'inversion' resulting in the combined company domiciled in Cork, Ireland. That's beyond the author's scope and capability! Please refer to other resources for information on issues regarding when inversions are allowable by law.

While the consolidated Tyco shares will become the shares of the combined company, the merger agreement includes a name change to Johnson Controls, plc, subject to vote by Tyco shareholders. The shares will be listed on the New York Stock Exchange under the symbol 'JCI' retained from current symbol for Johnson Controls, Inc.

There are many aspects of the merger agreement and process of interest to Johnson Controls shareholders. For those details, please refer to the [Merger Q&A posted to johnsoncontrols.com](#) (with a link to the Tyco S-4 Filing).

"Consideration to be Received by Johnson Controls Shareholders" starts on page 175 of the S-4 Filing. Let's skip ahead to that to investigate the calculation and detail of the 'proration' process.

Consideration to Johnson Controls Shareholders

In the merger process, Johnson Controls shareholders will be given an opportunity to select their desired consideration, cash or shares of the combined company. As stated these are subject to a process of 'proration' to ensure that: "Johnson Controls shareholders will receive in the aggregate approximately \$3.864 billion in cash." **And, this may result in shareholders not receiving the cash or shares in the mix of their choice.**

The detail of the process and proration are contained in the S-4 Filing in the section entitled "Consideration to be Received by Johnson Controls Shareholders" (S-4 p 175-8). Please refer to it for a more detail. In the following, the focus is on the proration process and calculation of consideration to be received by Johnson Controls Shareholders. In particular, the 'Proration' paragraph of the S-4 Filing (p176-7) will be addressed in steps.

Proration

*Under the merger agreement, **elections by Johnson Controls shareholders will be prorated so that Johnson Controls shareholders will receive in the aggregate \$3,863,939,539 in cash in the merger (referred to as the "aggregate cash consideration").***

(Form S-4 Filing p 176)

The merger agreement includes a provision that Johnson Controls shareholders receive from Tyco International an aggregate cash payment of \$3,863,939,539. The 'proration' process is the means specified to accomplish that objective.

The S-4 Filing continues to describe calculation for three cases:

1. Shareholders elections for cash, in aggregate, equals the \$3,863,939,539 aggregate cash consideration
2. Shareholders elections for cash, in aggregate, is greater than the \$3,863,939,539 aggregate cash consideration
3. Shareholders elections for cash, in aggregate, is less than the \$3,863,939,539 aggregate cash consideration

The special Case #1 is the case in which all shareholders receive rights to cash and/or shares exactly as they elected. For Cases #2 & #3 'proration' is required to determine the actual mix and amount of cash and/or share rights shareholders receive.

Case #1: Cash Election Equal to Aggregate Cash Consideration

If the aggregate number of cash electing shares multiplied by the \$34.88 per share cash consideration (the "cash election amount") is equal to the aggregate cash consideration,

then:

- **all cash electing shares** will be converted into the right to receive the cash consideration; **and**
- **all share electing shares** will be converted into the right to receive the share consideration.

(Form S-4 filing p 176)

This is an unlikely case. Here, shareholders, in total, have elected cash for their shares to the exact amount of the aggregate cash consideration. However, it does make the point that in this special case, every shareholder will receive rights to cash or shares in the exact proportion of their election. All other cases will require a 'proration' adjustment to shareholder elections.

Case #2: Cash Election Over Subscribed

If the cash election amount exceeds the aggregate cash consideration, then with respect to each Johnson Controls shareholder:

- **all of the shareholder's share electing shares** will be converted into the right to receive the share consideration; **and**

- **each of the shareholder's cash electing shares** will be converted into the right to receive:

(a) **an amount of cash equal to (i) the \$34.88 per share cash consideration multiplied by (ii) a fraction (the "cash fraction") the numerator of which is the aggregate cash consideration and the denominator of which is the cash election amount; and**

(b) **a number of ordinary shares of the combined company equal to one minus the cash fraction.**

(Form S-4 filing p 176)

In Case #2, Johnson Controls shareholders have requested cash payments for a total number of shares that would require a payment exceeding the 'aggregate cash consideration.' While their elections for shares can be met, some of the cash elections will be converted to shares. Those shareholders requesting cash in all or part of their consideration will actually be given rights to some fraction of their cash request and a number of shares.

Case # 3 Under-subscription of Cash Election

If the cash election amount **is less than** the aggregate cash consideration, then with respect to each Johnson Controls shareholder:

- all of the shareholder's **cash electing shares** will be converted into the right to receive the cash consideration; and
- each of the shareholder's **share electing shares** will be converted into the right to receive:

(a) an amount of cash equal to (i) the aggregate cash consideration minus the cash election amount, divided by (ii) the total number of share electing shares (the "per share cash"); and

(b) a number of ordinary shares of the combined company equal to (i) \$34.88 minus the per share cash, divided by (ii) \$34.88.

(Form S-4 filing p 176)

In Case #3, Johnson Controls shareholders have requested cash payments for a total number of shares that would require a payment less than the 'aggregate cash consideration.' In this case, their elections for cash can be met, but some of the share elections will be converted to cash. Those shareholders requesting shares in all or part of their consideration will actually be given rights to some fraction of their share request and cash at \$34.88/share.

Illustration of the Proration Calculations

To get a better idea of how 'proration' might be applied, let's go through the process. Note that for this illustration, equations for 'proration' have been written in terms of share election splits and ratios to better display the impact of 'proration.'

Shareholder Election

All shareholders will be given the opportunity to elect the mix they would like to receive in the merger. They can chose cash at \$34.88 per share and/or shares in the combined company at 1-for-1.

Let's follow a shareholder who has a total of 1,000 shares of Johnson Controls, Inc stock. Suppose this shareholder submits an election for 40% of those shares for cash and 60% for stock. Let's state that as:

Shareholder Cash Election = SCE = 0.4

Shareholder Share Election = SSE = 0.6

Aggregate Shareholder Election

When all of the shareholder elections have been totaled, representing all shares of Johnson Controls outstanding, the aggregate of shareholder elections can be determined. Let's follow two examples.

Example A

In this example, the shareholders overall elected 20% of outstanding shares for cash and 80% for stock. Let's state that as:

$$\text{Aggregate Cash Election} = \text{ACE} = 0.2$$

$$\text{Aggregate Share Election} = \text{ASE} = 0.8$$

Example B

In this example, the shareholders overall elected 5% of outstanding shares for cash and 95% for stock. Let's state that as:

$$\text{Aggregate Cash Election} = \text{ACE} = 0.05$$

$$\text{Aggregate Share Election} = \text{ASE} = 0.95$$

Comparison to Aggregate Cash Consideration

The 'proration' calculation depends upon whether the Aggregate Cash Consideration is over subscribed or under subscribed, i.e. if shareholders in aggregate have elected more or less cash for their shares than the aggregate cash consideration.

The number of shares, at \$34.88/share, required to reach that limit can be calculated as:

$$\$ 3,863,939,539 / \$34.88 = \mathbf{110,778,083.1135321 \text{ shares}}$$

Per the latest Quarterly Report 10-Q to the SEC, the current number of Johnson Controls, Inc shares outstanding is 648,370,147. So the percentage of shares outstanding required to achieve the aggregate cash consideration can be calculated as:

$$110,778,083.1135321 / 648,370,147 = \mathbf{0.17085623\dots}$$

Let's round that number to **17.09%** and conclude that:

- if shareholders, in total, elect to receive cash at \$34.88/share, for **17.09% or more** of Johnson Controls, Inc shares outstanding, the cash election is **Over Subscribed** as in Example A for which ACE = 0.2.
- if shareholders, in total, elect to receive cash at \$34.88/share, for **less than 17.09%** of Johnson Controls, Inc shares outstanding, the cash election is **Under Subscribed** as in Example B for which ACE = 0.05.

Proration for Over Subscribed Cash Election / Example A

For this case, the calculation of cash and share rights to be granted under the 'proration' process can be written as:

Let:

$$\text{Aggregate Cash Election Ratio} = \text{ACER} = 0.1709 / \text{ACE}$$

Then:

$$\text{Cash Rights} = (\text{ACER} \times \text{SCE}) \times \text{\#Shares} \times \$34.88$$

$$\text{Share Rights} = (1 - \text{ACER} \times \text{SCE}) \times \text{\#Shares}$$

Example A

$$\text{SCE} = 0.4 \text{ and } \text{SSE} = 0.6$$

$$\text{\#Shares} = 1,000$$

$$\text{ACE} = 0.2 \text{ and } \text{ASE} = 0.8$$

Then:

$$\text{ACER} = 0.1709 / 0.2 = 0.8545$$

$$\text{Cash Rights} = (0.8545 \times 0.4) \times 1,000 \times \$34.88 = \mathbf{\$11,921.98}$$

$$\text{Share Rights} = (1 - 0.8545 \times 0.4) \times 1,000 = \mathbf{658} + \text{cash for share fraction}$$

Summary

In this case, Cash Election Over Subscribed, the Johnson Controls Inc shareholder, who owned 1,000 shares, **requested cash for 40% (400 shares @ \$34.88/share = \$13,952)** of those shares, and **shares in the combined company, Johnson Controls, plc for 60% (600)** of the shares.

As a result of the 'proration' process, the shareholder **would actually receive rights to \$11,922 cash and 658 shares of Johnson Controls, plc plus some additional cash for a fractional share.**

The cash request was 'prorated' by the Aggregated Cash Election Ratio ACER i.e. reduced by the fraction ACER as confirmed by the calculation:

$$\$11,922 / \$13,952 = 0.8545 = \text{ACER}$$

The shareholders elections are adjusted by the 'proration' to:

$$\text{Cash Election Adjusted} = 0.8545 \times 0.4 = \mathbf{34.18\%} \text{ of shares}$$

$$\text{Share Election Adjusted} = (1 - 0.8545 \times 0.4) = \mathbf{65.82\%} \text{ of shares}$$

Proration for Under Subscribed Cash Election / Example B

For this case, the calculation of cash and share rights to be granted under the 'proration' process can be written as:

Let:

$$\text{Aggregate Share Election Ratio} = \text{ASER} = (1 - 0.1709) / \text{ASE}$$

Then:

$$\text{Cash Rights} = (1 - \text{ASER} \times \text{SSE}) \times \text{\#Shares} \times \$34.88$$

$$\text{Share Rights} = (\text{ASER} \times \text{SSE}) \times \text{\#Shares}$$

Example B

$$\text{SCE} = 0.4 \text{ and } \text{SSE} = 0.6$$

$$\text{\#Shares} = 1,000$$

$$\text{ACE} = 0.05 \text{ and } \text{ASE} = 0.95$$

Then:

$$\text{ASER} = (1 - 0.1709) / 0.95 = 0.87274$$

$$\text{Cash Rights} = (1 - 0.87274 \times 0.6) \times 1,000 \times \$34.88 = \mathbf{\$16,615.37}$$

$$\text{Share Rights} = (0.87274 \times 0.6) \times 1,000 = \mathbf{523} + \text{cash for share fraction}$$

Summary

In this case, Cash Election Under Subscribed, the Johnson Controls Inc shareholder, who owned 1,000 shares, **requested cash for 40% (400 shares @ \$34.88/share = \$13,952)** of those shares, and **shares in the combined company, Johnson Controls, plc for 60% (600)** of the shares, the same as Example A.

As a result of the 'proration' process, the shareholder **would actually receive rights to \$16,615 cash and 523 shares of Johnson Controls, plc plus some additional cash for a fractional share.**

The share request was 'prorated' by the Aggregated Share Election Ratio ASER i.e. reduced by the fraction ASER as confirmed by the calculation:

$$523/600 = 0.8720 = \text{ACER (slight differences is due to rounding)}$$

The shareholders elections are adjusted by the 'proration' to:

$$\text{Cash Election Adjusted} = (1 - 0.87274 \times 0.6) = \mathbf{47.64\%}$$
 of shares

$$\text{Share Election Adjusted} = 0.87274 \times 0.6 = \mathbf{52.36\%}$$
 of shares

Discussion of Consideration Calculation

As shown in the calculations above, 'proration' will have an impact on the value of the merger to each shareholder's position in Johnson Controls stock. A simple means of assessing value is **Share Price x # Shares**. The market sets the share price, somehow factoring in its assessment of the value of the company.

Using this measure of value the near term impact of the merger on a shareholder's position can be explored. The table: "**Example Calculations: Consideration to JCI Shareholders**" was constructed to illustrate potential scenarios of shareholder elections and impact on individual shareholder positions in Johnson Controls, Inc stock.

Please note that the calculations here are only for illustration of the 'proration' process. Actual results and impact will be determined by stock prices at the time the merger, if approved, goes through, and by the actual elections made by shareholders in the process. Also, the 'value' of the merger to an individual shareholder can only be assessed by that shareholder and the shareholder's advisers.

For this illustration, consider the shareholder with **1,000 Johnson Controls, Inc.** Suppose that the market price of those shares is **\$40/share** at the time of the merger. The shareholder then has a **\$40,000** position in Johnson Controls, Inc stock at the initiation of the merger process.

The table "**Example Calculations: Consideration to JCI Shareholders**" illustrates potential outcomes of the 'proration' process for a number of shareholder election scenarios. Consider the following eight cases to help clarify the illustration:

<i>Case</i>	<i>Aggregate Elections Cash – Share</i>	<i>Shareholder Election Cash/Share</i>	<i>Cash Rights Granted</i>	<i>Share Rights Granted</i>	<i>Total \$ Value Received</i>	<i>Difference</i>
A	20% / 80%	40% / 60%	\$11,922	658	\$38,249	-4.38%
B	5% / 95%	40% / 60%	\$16,615	523	\$37,558	-6.11%
C	100% / 0%	100% / 0%	\$5,964	829	\$39,124	-2.19%
D	0% / 100%	0% / 100%	\$5,964	829	\$39,124	-2.19%
E	17.09% / 82.91%	0% / 100%	\$0	1,000	\$40,000	0%
F	17.09% / 82.91%	100% / 0%	\$34,880	0	\$34,880	-12.80%
G	15% / 85%	0% / 100%	\$872	975	\$39,872	-0.32%
H	5% / 95%	0% / 100%	\$4,465	872	\$39,345	-1.64%

1. **Cases A & B** are the Examples A & B used above. They illustrate how a shareholder election for 40% cash ($400 \times \$34.88 = \$13,952$) and 60% share (600 shares) consideration may actually result in significantly different rights granted. In Case A, cash election is over subscribed; 'proration' increases shares granted, and reduces cash granted. In Case B, cash election is under-subscribed; 'proration' reduces shares granted, and increases cash granted.
2. What if every shareholder elects for cash? That result is illustrated in **Case C**. The example shareholder is also requesting all cash ($1,000 \times \$34.88 = \$34,880$). In this case, $ACE = SCE = 1.0$, and $ACER = 0.1709$. The 'proration' calculation distributes the Cash Rights equally to all shareholders as ($0.1709 \times \$34.88$) per share and provides share rights for the remainder of their shares.
3. What if every shareholder elects for shares? That result is illustrated in **Case D**. The example shareholder is also requesting all shares (1,000). In this case, $ASE = SSE = 1.0$, and $ASER = (1 - 0.1709) = 0.8291$. The 'proration' calculation distributes the Share Rights equally to all shareholders as 829 shares plus cash for a fractional share. And cash rights are also distributed equally to all shareholders as ($0.1709 \times \$34.88$) per share. The result of 'proration' for Cases C & D are identical.
4. **Cases E & F** have the Aggregated Cash Consideration fully subscribed, exactly, i.e. $ACER = 1$.

'Proration' in **Case E** will grant this shareholder, 1,000 shares of Johnson Controls, plc. If, as assumed, the share price of those shares will be equal to the Johnson Controls, Inc price, here assumed to be \$40/share, the shareholders position will remain valued at \$40,000.

'Proration' in **Case F** will grant this shareholder, electing cash for 100% of shares, rights to the full cash amount of \$34,880. The loss in value calculated here is based upon a price of \$40/share. No one knows what that price will actually be when the merger is implemented – your guess is as good as any!

5. **Cases G & H** illustrate a shareholder electing shares for 100% of the 1,000 shares owned with two levels of under-subscription of the Aggregated Cash Consideration.

Case G has cash under-subscribed 15% vs full subscription at ~17%. There is relatively little cash to be 'prorated'. In this case, 'proration' exchanges 25 shares for cash at \$34.88 per share, leaving the shareholder with rights to 975 shares of the combined company.

Case H has cash significantly under-subscribed, 5% vs full subscription at ~17%. There is a significant amount of cash to be 'prorated'. In this case, 'proration' exchanges 128 shares for cash at \$34.88 per share, leaving the shareholder with rights to 872 shares of the combined company.

6. Of note, but not illustrated here, is the case in which the Johnson Controls, Inc share price is \$34.88 at the time of the merger. A share right and cash right would have the same value, \$34.88. The Total Value Received from any election would be equal to $1,000 \times \$34.88 = \$34,880$. And, the Difference would be 0% for all cases.

Example Calculations: Consideration to JCI Shareholders

Shareholder JCI Shares	JCI Share Price	Initial Position Value		Cash Shares (%)	Cash Consideration (\$)	Cash Change Per Share (\$)	Cash Change Per Share (%)
1,000	\$40.00	\$40,000.00		17.09%	\$34.88	-\$5.12	-12.80%

Aggregate Cash Election (%)	Aggregate Share Election (%)	Shareholder Cash Election (%)	Shareholder Share Election (%)	Cash Rights Received (\$)	Share Rights Received (# Shares)	Total Rights Received (\$)	Change (\$)	Change (%)
Cash Consideration Over Subscribed								
100%	0%	100%	0%	\$5,964	829	\$39,124	-\$876	-2.19%
80%	20%	100%	0%	\$7,464	786	\$38,904	-\$1,096	-2.74%
80%	20%	80%	20%	\$5,964	829	\$39,124	-\$876	-2.19%
80%	20%	60%	40%	\$4,500	871	\$39,340	-\$660	-1.65%
80%	20%	40%	60%	\$3,000	914	\$39,560	-\$440	-1.10%
80%	20%	20%	80%	\$1,500	957	\$39,780	-\$220	-0.55%
80%	20%	0%	100%	\$0	1000	\$40,000	\$0	0.00%
60%	40%	100%	0%	\$9,941	715	\$38,541	-\$1,459	-3.65%
60%	40%	80%	20%	\$7,953	772	\$38,833	-\$1,167	-2.92%
60%	40%	60%	40%	\$5,964	829	\$39,124	-\$876	-2.19%
60%	40%	40%	60%	\$3,976	886	\$39,416	-\$584	-1.46%
60%	40%	20%	80%	\$1,988	943	\$39,708	-\$292	-0.73%
60%	40%	0%	100%	\$0	1000	\$40,000	\$0	0.00%
40%	60%	100%	0%	\$14,929	572	\$37,809	-\$2,191	-5.48%
40%	60%	80%	20%	\$11,929	658	\$38,249	-\$1,751	-4.38%
40%	60%	60%	40%	\$8,964	743	\$38,684	-\$1,316	-3.29%
40%	60%	40%	60%	\$5,964	829	\$39,124	-\$876	-2.19%
40%	60%	20%	80%	\$3,000	914	\$39,560	-\$440	-1.10%
40%	60%	0%	100%	\$0	1000	\$40,000	\$0	0.00%
20%	80%	100%	0%	\$29,822	145	\$35,622	-\$4,378	-10.94%
20%	80%	80%	20%	\$23,858	316	\$36,498	-\$3,502	-8.76%
20%	80%	60%	40%	\$17,893	487	\$37,373	-\$2,627	-6.57%
20%	80%	40%	60%	\$11,929	658	\$38,249	-\$1,751	-4.38%
20%	80%	20%	80%	\$5,964	829	\$39,124	-\$876	-2.19%
20%	80%	0%	100%	\$0	1000	\$40,000	\$0	0.00%
Cash Consideration Exactly Subscribed								
17.09%	83%	100%	0%	\$34,880	0	\$34,880	-\$5,120	-12.80%
17.09%	83%	80%	20%	\$27,904	200	\$35,904	-\$4,096	-10.24%
17.09%	83%	60%	40%	\$20,928	400	\$36,928	-\$3,072	-7.68%
17.09%	83%	40%	60%	\$13,952	600	\$37,952	-\$2,048	-5.12%
17.09%	83%	20%	80%	\$6,976	800	\$38,976	-\$1,024	-2.56%
17.09%	83%	0%	100%	\$0	1000	\$40,000	\$0	0.00%
Cash Consideration Under Subscribed								
15%	85%	100%	0%	\$34,880	0	\$34,880	-\$5,120	-12.80%
15%	85%	80%	20%	\$28,078	195	\$35,878	-\$4,122	-10.30%
15%	85%	60%	40%	\$21,277	390	\$36,877	-\$3,123	-7.81%
15%	85%	40%	60%	\$14,475	585	\$37,875	-\$2,125	-5.31%
15%	85%	20%	80%	\$7,674	780	\$38,874	-\$1,126	-2.82%
15%	85%	0%	100%	\$872	975	\$39,872	-\$128	-0.32%
10%	90%	100%	0%	\$34,880	0	\$34,880	-\$5,120	-12.80%
10%	90%	80%	20%	\$28,462	184	\$35,822	-\$4,178	-10.44%
10%	90%	60%	40%	\$22,044	368	\$36,764	-\$3,236	-8.09%
10%	90%	40%	60%	\$15,626	552	\$37,706	-\$2,294	-5.73%
10%	90%	20%	80%	\$9,208	736	\$38,648	-\$1,352	-3.38%
10%	90%	0%	100%	\$2,756	921	\$39,596	-\$404	-1.01%
5%	95%	100%	0%	\$34,880	0	\$34,880	-\$5,120	-12.80%
5%	95%	80%	20%	\$28,811	174	\$35,771	-\$4,229	-10.57%
5%	95%	60%	40%	\$22,707	349	\$36,667	-\$3,333	-8.33%
5%	95%	40%	60%	\$16,638	523	\$37,558	-\$2,442	-6.11%
5%	95%	20%	80%	\$10,534	698	\$38,454	-\$1,546	-3.87%
5%	95%	0%	100%	\$4,465	872	\$39,345	-\$655	-1.64%
0%	100%	0%	100%	\$5,964	829	\$39,124	-\$876	-2.19%

Tax Implications of the Merger by Inversion

With the merger of Johnson Controls, Inc and Tyco International structured as an inversion, there may be significant tax implications for long term shareholders of Johnson Controls stock. The purpose here is to alert members to the issue.

The S-4 Filing includes the following comment on tax implications (bold emphasis added to the original text):

Q: WHAT ARE THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE TRANSACTION TO JOHNSON CONTROLS SHAREHOLDERS?

A: The receipt of ordinary shares of the combined company and/or cash in exchange for Johnson Controls common stock pursuant to the merger will be treated as a taxable transaction for U.S. federal income tax purposes. A U.S. holder (as defined under " Certain Tax Consequences of the Merger—U.S. Federal Income Tax Considerations ") of Johnson Controls common stock will generally recognize taxable gain or loss equal to the difference between (i) the sum of the fair market value of the ordinary shares of the combined company and the amount of cash (including any cash received in lieu of fractional ordinary shares of the combined company) received in the merger and (ii) the U.S. holder's adjusted tax basis in the shares of Johnson Controls common stock surrendered in exchange therefor.

In certain circumstances, Section 304 of the Internal Revenue Code of 1986, as amended (the "Code"), could cause a holder of Johnson Controls common stock that also owns, directly or constructively, Tyco ordinary shares immediately prior to the merger to be treated as receiving a dividend in an amount up to the fair market value of the total consideration received by such holder in the merger, regardless of such holder's gain or loss on its Johnson Controls common stock. Non-U. S. holders (as defined under " Certain Tax Consequences of the Merger—U.S. Federal Income Tax Considerations ") of Johnson Controls common stock may be subject to U.S. withholding tax with respect to any consideration received in the merger.

Holders of Johnson Controls common stock should read the section entitled "**Certain Tax Consequences of the Merger—U.S. Federal Income Tax Considerations**" for a more complete discussion of the U.S. federal income tax consequences of the merger. Tax matters can be complicated, and the tax consequences of the merger to a particular holder of Johnson Controls common stock will depend on such holder's particular facts and circumstances. **Holders of Johnson Controls common stock should consult their own tax advisors to determine the specific tax consequences to them of the merger.**

S-4 Filing p 17-18

The Section "**Certain Tax Consequences of the Merger**" (S-4 Filing p 212-230) includes discussion of both "U.S. Federal Income Tax Considerations" and "Irish Tax Considerations."