

ROCKWELL AUTOMATION INC

Form 10-Q

August 04, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended June 30, 2011  
Commission file number 1-12383  
**Rockwell Automation, Inc.**  
(Exact name of registrant as specified in its charter)**

Delaware

25-1797617

(State or other jurisdiction  
of incorporation or organization)

(I.R.S. Employer  
Identification No.)

1201 South Second Street, Milwaukee, Wisconsin

53204

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (414) 382-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant 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  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

Accelerated Filer

Non-accelerated Filer

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

143,209,513 shares of registrant's Common Stock, \$1.00 par value, were outstanding on June 30, 2011.

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**ROCKWELL AUTOMATION, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**(Unaudited)**  
**(in millions)**

	June 30, 2011	September 30, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,021.8	\$ 813.4
Receivables	1,045.4	859.0
Inventories	690.5	603.3
Deferred income taxes	185.7	170.2
Other current assets	152.3	140.7
Total current assets	3,095.7	2,586.6
Property, net of accumulated depreciation of \$1,223.3 and \$1,185.5, respectively	544.2	536.9
Goodwill	968.6	912.5
Other intangible assets, net	224.8	217.3
Deferred income taxes	317.3	324.5
Prepaid pension	43.3	28.3
Other assets	133.8	142.2
TOTAL	\$ 5,327.7	\$ 4,748.3

**LIABILITIES AND SHAREOWNERS EQUITY**

Current liabilities:		
Accounts payable	\$ 478.9	\$ 435.7
Compensation and benefits	230.5	300.1
Advance payments from customers and deferred revenue	205.5	184.9
Customer returns, rebates and incentives	134.0	119.5
Other current liabilities	290.4	182.1
Total current liabilities	1,339.3	1,222.3
Long-term debt	905.0	904.9
Retirement benefits	946.4	923.4
Other liabilities	239.9	237.3
Commitments and contingent liabilities (Note 11)		

Shareowners equity:		
Common stock (shares issued: 181.4)	181.4	181.4
Additional paid-in capital	1,371.9	1,344.2
Retained earnings	3,180.8	2,912.4
Accumulated other comprehensive loss	(708.1)	(841.2)
Common stock in treasury, at cost (shares held: June 30, 2011, 38.2; September 30, 2010, 39.7)	(2,128.9)	(2,136.4)
Total shareowners equity	1,897.1	1,460.4
TOTAL	\$ 5,327.7	\$ 4,748.3

See Notes to Condensed Consolidated Financial Statements.

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**ROCKWELL AUTOMATION, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**(Unaudited)**  
**(in millions, except per share amounts)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Sales				
Products and solutions	\$ 1,370.0	\$ 1,128.6	\$ 3,935.1	\$ 3,127.0
Services	146.2	139.5	411.0	373.1
	1,516.2	1,268.1	4,346.1	3,500.1
Cost of sales				
Products and solutions	(810.1)	(663.8)	(2,338.5)	(1,836.2)
Services	(99.3)	(97.0)	(280.4)	(256.7)
	(909.4)	(760.8)	(2,618.9)	(2,092.9)
Gross profit	606.8	507.3	1,727.2	1,407.2
Selling, general and administrative expenses	(370.0)	(333.3)	(1,073.1)	(969.0)
Other (expense) income	(0.9)	(3.7)	2.3	(6.5)
Interest expense	(14.7)	(14.8)	(44.9)	(45.3)
Income from continuing operations before income taxes	221.2	155.5	611.5	386.4
Income tax provision	(42.4)	(36.1)	(116.2)	(77.3)
<b>Income from continuing operations</b>	<b>178.8</b>	<b>119.4</b>	<b>495.3</b>	<b>309.1</b>
Income from discontinued operations	0.7		0.7	23.9
<b>Net income</b>	<b>\$ 179.5</b>	<b>\$ 119.4</b>	<b>\$ 496.0</b>	<b>\$ 333.0</b>
<b>Basic earnings per share:</b>				
Continuing operations	\$ 1.24	\$ 0.84	\$ 3.46	\$ 2.17
Discontinued operations	0.01		0.01	0.17
Net income	\$ 1.25	\$ 0.84	\$ 3.47	\$ 2.34

**Diluted earnings per share:**

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Continuing operations	\$ 1.22	\$ 0.83	\$ 3.40	\$ 2.14
Discontinued operations	0.01			0.17
Net income	\$ 1.23	\$ 0.83	\$ 3.40	\$ 2.31
<b>Cash dividends per share</b>	\$ 0.775	\$ 0.64	\$ 1.475	\$ 1.22
<b>Weighted average outstanding shares:</b>				
Basic	143.4	142.0	142.8	142.1
Diluted	145.9	144.3	145.5	144.1

See Notes to Condensed Consolidated Financial Statements.



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**ROCKWELL AUTOMATION, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(Unaudited)**  
**(in millions)**

	Nine Months Ended June 30,	
	2011	2010
<b>Continuing operations:</b>		
<b>Operating activities:</b>		
Net income	\$ 496.0	\$ 333.0
Income from discontinued operations	(0.7)	(23.9)
Income from continuing operations	495.3	309.1
Adjustments to arrive at cash provided by operating activities:		
Depreciation	70.4	71.0
Amortization of intangible assets	26.2	23.2
Share-based compensation expense	29.3	27.1
Retirement benefits expense	75.6	66.6
Pension trust contributions	(23.3)	(21.9)
Net (gain) loss on disposition of property and investments	(2.0)	1.7
Income tax benefit from the exercise of stock options	3.1	0.5
Excess income tax benefit from share-based compensation	(37.8)	(12.3)
Changes in assets and liabilities, excluding effects of foreign currency adjustments:		
Receivables	(153.3)	(134.7)
Inventories	(68.5)	(151.6)
Accounts payable	37.0	88.5
Compensation and benefits	(73.7)	115.0
Income taxes	67.5	22.2
Other assets and liabilities	16.7	29.0
<b>Cash provided by operating activities</b>	<b>462.5</b>	<b>433.4</b>
<b>Investing activities:</b>		
Capital expenditures	(76.0)	(54.2)
Acquisition of businesses, net of cash acquired	(45.9)	
Proceeds from sale of property and investments	4.3	4.5
<b>Cash used for investing activities</b>	<b>(117.6)</b>	<b>(49.7)</b>
<b>Financing activities:</b>		
Cash dividends	(150.3)	(124.0)
Purchases of treasury stock	(222.7)	(90.4)
Proceeds from the exercise of stock options	170.8	28.7
Excess income tax benefit from share-based compensation	37.8	12.3
Other financing activities	(0.3)	(0.3)
<b>Cash used for financing activities</b>	<b>(164.7)</b>	<b>(173.7)</b>

Effect of exchange rate changes on cash	31.6	(27.6)
<b>Cash provided by continuing operations</b>	211.8	182.4
<b>Discontinued operations:</b>		
Cash used for discontinued operating activities	(3.4)	(0.2)
<b>Cash used for discontinued operations</b>	(3.4)	(0.2)
<b>Increase in cash and cash equivalents</b>	208.4	182.2
<b>Cash and cash equivalents at beginning of period</b>	813.4	643.8
<b>Cash and cash equivalents at end of period</b>	\$ 1,021.8	\$ 826.0

See Notes to Condensed Consolidated Financial Statements.

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**ROCKWELL AUTOMATION, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation and Accounting Policies**

In the opinion of management of Rockwell Automation, Inc. (the Company or Rockwell Automation), the unaudited Condensed Consolidated Financial Statements contain all adjustments necessary to present fairly the financial position, results of operations, and cash flows for the periods presented and, except as otherwise indicated, such adjustments consist only of those of a normal recurring nature. These statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 30, 2010. The results of operations for the three and nine month periods ended June 30, 2011 are not necessarily indicative of the results for the full year. All date references to years and quarters herein refer to our fiscal year and fiscal quarter unless otherwise stated.

*Receivables*

Receivables are stated net of allowances for doubtful accounts of \$23.8 million at June 30, 2011 and \$17.9 million at September 30, 2010. In addition, receivables are stated net of an allowance for certain customer returns, rebates and incentives of \$8.6 million at June 30, 2011 and \$16.4 million at September 30, 2010.

*Earnings Per Share*

The following table reconciles basic and diluted earnings per share (EPS) amounts (in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Income from continuing operations	\$ 178.8	\$ 119.4	\$ 495.3	\$ 309.1
Less: Allocation to participating securities	(0.3)	(0.3)	(1.0)	(0.7)
Income from continuing operations available to common shareowners	\$ 178.5	\$ 119.1	\$ 494.3	\$ 308.4
Income from discontinued operations	\$ 0.7	\$	\$ 0.7	\$ 23.9
Less: Allocation to participating securities				(0.1)
Income from discontinued operations available to common shareowners	\$ 0.7	\$	\$ 0.7	\$ 23.8
Net income	\$ 179.5	\$ 119.4	\$ 496.0	\$ 333.0
Less: Allocation to participating securities	(0.3)	(0.3)	(1.0)	(0.8)
Net income available to common shareowners	\$ 179.2	\$ 119.1	\$ 495.0	\$ 332.2
Basic weighted average outstanding shares	143.4	142.0	142.8	142.1
Effect of dilutive securities				
Stock options	2.1	1.9	2.3	1.7
Performance shares	0.4	0.4	0.4	0.3
Diluted weighted average outstanding shares	145.9	144.3	145.5	144.1

**Basic earnings per share:**

Continuing operations	\$	1.24	\$	0.84	\$	3.46	\$	2.17
Discontinued operations		0.01				0.01		0.17
Net income	\$	1.25	\$	0.84	\$	3.47	\$	2.34

**Diluted earnings per share:**

Continuing operations	\$	1.22	\$	0.83	\$	3.40	\$	2.14
Discontinued operations		0.01						0.17
Net income	\$	1.23	\$	0.83	\$	3.40	\$	2.31

For the three and nine months ended June 30, 2011, share-based compensation awards for 1.1 million and 1.9 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive. For the three and nine months ended June 30, 2010, share-based compensation awards for 3.7 million and 5.0 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive.

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**ROCKWELL AUTOMATION, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation and Accounting Policies (Continued)***Recent Accounting Pronouncements*

In June 2011, the Financial Accounting Standards Board (FASB) issued new accounting guidance related to the presentation of comprehensive income that eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Under this guidance, an entity can elect to present items of net income and other comprehensive income in one continuous statement or two consecutive statements. This guidance is effective for us beginning October 1, 2012. We do not believe the adoption of this guidance will have a material effect on our consolidated financial statements and related disclosures.

In May 2011, the FASB issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between accounting principles generally accepted in the United States (U.S. GAAP) and International Financial Reporting Standards. This guidance includes amendments that clarify the application of existing fair value measurements and disclosures, in addition to other amendments that change principles or requirements for fair value measurements or disclosures. This guidance is effective for us beginning January 1, 2012. We do not believe the adoption of this guidance will have a material effect on our consolidated financial statements and related disclosures.

**2. Share-Based Compensation**

We recognized \$10.1 million and \$29.3 million of pre-tax share-based compensation expense during the three and nine months ended June 30, 2011, respectively. We recognized \$9.2 million and \$27.1 million of pre-tax share-based compensation expense during the three and nine months ended June 30, 2010, respectively.

Our annual grant of share-based compensation takes place during the first quarter of each fiscal year. The number of shares granted to all employees and non-employee directors and the weighted average fair value per share during the periods presented were (in thousands except per share amounts):

	Nine Months Ended June 30,			
	2011		2010	
	Grants	Wtd. Avg. Share Fair Value	Grants	Wtd. Avg. Share Fair Value
Stock options	1,727	\$ 21.39	2,169	\$ 13.59
Performance shares	77	87.00	146	54.81
Restricted stock and restricted stock units	68	74.52	146	43.66
Unrestricted stock	11	69.79	11	44.20

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**ROCKWELL AUTOMATION, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**3. Acquisitions**

In April 2011, we acquired certain assets and assumed certain liabilities of Hiprom (Pty) Ltd and its affiliates (Hiprom), a process control and automation systems integrator for the mining and mineral processing industry in South Africa. In May 2011, we purchased a majority stake in the equity of Lektronix Limited and its affiliate (Lektronix), an independent industrial automation repairs and service provider in Europe and Asia. The terms of this acquisition included mirroring put and call options for a fixed price in December 2011 with respect to the remaining minority shares. Accordingly, we recorded the Lektronix share purchase as an acquisition of all outstanding equity interests with a corresponding liability of \$11.1 million related to the put/call option as of the acquisition date. The aggregate purchase price of the Hiprom and Lektronix acquisitions was \$58.8 million.

We recorded goodwill of \$34.0 million attributable to intangible assets that do not meet the criteria for separate recognition, including an assembled workforce with industry-wide technical expertise and customer service capabilities. We assigned the full amount of goodwill for Hiprom and Lektronix to our Control Products & Solutions segment. None of the goodwill recorded is expected to be deductible for tax purposes.

Purchase price allocations may be subsequently adjusted to reflect final valuation studies. The fair values and weighted average useful lives that have been preliminarily assigned to the acquired identifiable intangible assets of these two acquisitions are:

Wtd. Avg.