ROCKWELL AUTOMATION INC
Form 10-Q
April 25, 2019

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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 March 31, 2019
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)**

+1 (414) 382-2000

Registrant’s telephone number, including area code

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 every Interactive Data File required to be submitted 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 such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	Accelerated Filer
Non-accelerated Filer	Smaller Reporting Company
	Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No
118,362,039 shares of registrant’s Common Stock, $1.00 par value, were outstanding on March 31, 2019.

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ROCKWELL AUTOMATION, INC.

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PART I. FINANCIAL INFORMATION
Item 1. ***Consolidated Financial Statements***

ROCKWELL AUTOMATION, INC.

CONSOLIDATED BALANCE SHEET
(Unaudited)
(in millions, except per share amounts)

	March 31, 2019	September 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$780.0	$618.8
Short-term investments	122.2	290.9
Receivables	1,244.4	1,190.1
Inventories	665.4	581.6
Other current assets	164.8	149.3
Total current assets	2,976.8	2,830.7
Property, net of accumulated depreciation of $1,556.9 and $1,561.4, respectively	557.8	576.8
Goodwill	1,086.4	1,075.5
Other intangible assets, net	207.7	215.2
Deferred income taxes	200.0	179.6
Long-term investments	1,111.9	1,288.0
Other assets	113.6	96.2
Total	$6,254.2	$6,262.0
LIABILITIES AND SHAREOWNERS' EQUITY		
Current liabilities:		
Short-term debt	$1.3	$551.0
Current portion of long term debt	297.4	—
Accounts payable	660.9	713.4
Compensation and benefits	197.2	289.4
Contract liabilities	308.9	249.9
Customer returns, rebates and incentives	192.5	206.6
Other current liabilities	213.7	226.6
Total current liabilities	1,871.9	2,236.9
Long-term debt	1,932.4	1,225.2
Retirement benefits	587.0	605.1
Other liabilities	526.6	577.3
Commitments and contingent liabilities (Note 12)		
Shareowners' equity:		
Common stock ($1.00 par value, shares issued: 181.4)	181.4	181.4
Additional paid-in capital	1,686.7	1,681.4
Retained earnings	6,398.0	6,198.1
Accumulated other comprehensive loss	(940.3)	(941.9)
Common stock in treasury, at cost (shares held: 63.0 and 60.3, respectively)	(5,989.5)	(5,501.5)
Total shareowners' equity	1,336.3	1,617.5
Total	$6,254.2	$6,262.0

See Notes to Consolidated Financial Statements.

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ROCKWELL AUTOMATION, INC.

CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)
(in millions, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Sales				
Products and solutions	$1,466.8	$1,470.5	$2,924.4	$2,883.0
Services	190.4	180.7	375.1	354.8
	1,657.2	1,651.2	3,299.5	3,237.8
Cost of sales				
Products and solutions	(823.6)	(836.1)	(1,606.0)	(1,616.6)
Services	(125.4)	(111.2)	(246.6)	(217.1)
	(949.0)	(947.3)	(1,852.6)	(1,833.7)
Gross profit	708.2	703.9	1,446.9	1,404.1
Selling, general and administrative expenses	(385.0)	(386.6)	(771.7)	(773.2)
Other income (expense) (Note 9)	102.9	(0.4)	(107.6)	3.8
Interest expense	(23.7)	(17.3)	(44.4)	(37.3)
Income before income taxes	402.4	299.6	523.2	597.4
Income tax provision (Note 13)	(56.4)	(72.2)	(96.9)	(606.4)
Net income (loss)	$346.0	$227.4	$426.3	$(9.0)
Earnings (loss) per share:				
Basic	$2.91	$1.79	$3.56	$(0.07)
Diluted	$2.88	$1.77	$3.53	$(0.07)
Weighted average outstanding shares:				
Basic	118.9	126.9	119.6	127.6
Diluted	120.0	128.5	120.7	127.6

See Notes to Consolidated Financial Statements.

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ROCKWELL AUTOMATION, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)
(in millions)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net income (loss)	$346.0	$227.4	$426.3	$(9.0)
Other comprehensive income (loss), net of tax:				
Pension and other postretirement benefit plan adjustments (net of tax (expense) of ($4.3), ($7.4), ($8.6) and ($14.8))	14.2	20.2	28.0	40.4
Currency translation adjustments	19.0	76.5	(9.5)	60.4
Net change in unrealized gains and losses on cash flow hedges (net of tax (expense) benefit of ($0.5), $0.3, $6.0 and $0.6)	2.5	(1.0)	(18.3)	(0.5)
Net change in unrealized gains and losses on available-for-sale investments (net of tax (expense) benefit of ($0.2), $0.3, ($0.3) and $0.6)	0.9	(1.5)	1.4	(2.6)
Other comprehensive income	36.6	94.2	1.6	97.7
Comprehensive income	$382.6	$321.6	$427.9	$88.7

See Notes to Consolidated Financial Statements.

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ROCKWELL AUTOMATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
(in millions)

	Six Months Ended March 31, 2019	2018
Operating activities:		
Net income (loss)	$426.3	$(9.0)
Adjustments to arrive at cash provided by operating activities:		
Depreciation	62.1	68.5
Amortization of intangible assets	13.2	14.3
Change in fair value of investments	114.5	—
Share-based compensation expense	21.8	18.8
Retirement benefit expense	34.4	56.7
Pension contributions	(15.1)	(23.5)
Net loss on disposition of property	1.7	—
Settlement of treasury locks	(35.7)	—
Changes in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments:		
Receivables	(41.5)	(9.8)
Inventories	(86.0)	(7.9)
Accounts payable	(12.1)	7.2
Contract liabilities	41.2	42.8
Compensation and benefits	(90.5)	(67.7)
Income taxes	(66.7)	508.6
Other assets and liabilities	(11.8)	(4.9)
Cash provided by operating activities	355.8	594.1
Investing activities:		
Capital expenditures	(80.9)	(56.2)
Acquisition of businesses, net of cash acquired	(20.7)	(9.9)
Purchases of investments	(2.8)	(276.6)
Proceeds from maturities of investments	219.2	690.3
Proceeds from sale of investments	—	155.3
Proceeds from sale of property	3.3	0.4
Cash provided by investing activities	118.1	503.3
Financing activities:		
Net repayment of short-term debt	(549.7)	(41.9)
Issuance of long-term debt, net of discount and issuance costs	987.6	—
Repayment of long-term debt	—	(250.0)
Cash dividends	(232.5)	(213.5)
Purchases of treasury stock	(535.2)	(661.7)
Proceeds from the exercise of stock options	23.8	61.9
Other financing activities	—	1.8
Cash used for financing activities	(306.0)	(1,103.4)
Effect of exchange rate changes on cash	(6.7)	29.0
Increase in cash and cash equivalents	161.2	23.0

Cash and cash equivalents at beginning of period	618.8	1,410.9
Cash and cash equivalents at end of period	$780.0	$1,433.9

See Notes to Consolidated Financial Statements.

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ROCKWELL AUTOMATION, INC.

CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY
(Unaudited)
(in millions, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	**2018**	**2019**	**2018**
Common stock (no shares issued during years)	$181.4	$181.4	$181.4	$181.4
Additional paid-in capital				
Beginning balance	1,674.4	1,642.9	1,681.4	1,638.0
Share-based compensation expense	10.5	9.6	20.8	17.4
Shares delivered under incentive plans	1.8	7.1	(15.5)	4.2
Ending balance	1,686.7	1,659.6	1,686.7	1,659.6
Retained earnings				
Beginning balance	6,167.6	5,759.7	6,198.1	6,103.4
Adoption of accounting standard	—	—	6.1	—
Net income (loss)	346.0	227.4	426.3	(9.0)
Cash dividends ($0.97, $0.835, $1.94, and $1.67 per share)	(115.6)	(106.2)	(232.5)	(213.5)
Ending balance	6,398.0	5,880.9	6,398.0	5,880.9
Accumulated other comprehensive loss				
Beginning balance	(976.9)	(1,175.7)	(941.9)	(1,179.2)
Other comprehensive income	36.6	94.2	1.6	97.7
Ending balance	(940.3)	(1,081.5)	(940.3)	(1,081.5)
Common stock in treasury, at cost				
Beginning balance	(5,772.2)	(4,252.1)	(5,501.5)	(4,080.0)
Purchases	(236.0)	(465.4)	(528.8)	(674.0)
Shares delivered under incentive plans	18.7	24.3	40.8	60.8
Ending balance	(5,989.5)	(4,693.2)	(5,989.5)	(4,693.2)
Total shareowners' equity	$1,336.3	$1,947.2	$1,336.3	$1,947.2

See Notes to Consolidated Financial Statements.

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Accounting Policies

In the opinion of management of Rockwell Automation, Inc. ("Rockwell Automation" or "the Company"), the unaudited 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, 2018. The results of operations for the three- and six-month periods ended March 31, 2019, 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 an allowance for doubtful accounts of $19.6 million at March 31, 2019, and $17.1 million at September 30, 2018. In addition, receivables are stated net of an allowance for certain customer returns, rebates and incentives of $13.5 million at March 31, 2019, and $8.7 million at September 30, 2018.

Earnings Per Share

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net income (loss)	$346.0	$227.4	$426.3	$(9.0)
Less: Allocation to participating securities	(0.4)	(0.2)	(0.4)	—
Net income (loss) available to common shareowners	$345.6	$227.2	$425.9	$(9.0)
Basic weighted average outstanding shares	118.9	126.9	119.6	127.6
Effect of dilutive securities				
Stock options	1.0	1.4	1.0	—
Performance shares	0.1	0.2	0.1	—
Diluted weighted average outstanding shares	120.0	128.5	120.7	127.6
Earnings (loss) per share:				
Basic	$2.91	$1.79	$3.56	$(0.07)
Diluted	$2.88	$1.77	$3.53	$(0.07)

For each of the three and six months ended March 31, 2019, 1.8 million shares related to share-based compensation awards, were excluded from the diluted EPS calculation because they were antidilutive. For each of the three and six months ended March 31, 2018, 0.9 million shares related to share-based compensation awards were excluded from the diluted EPS calculation because they were antidilutive. For the six months ended March 31, 2018, 2.6 million potential common shares related to share-based compensation awards were excluded from the diluted EPS calculation because we recorded a net loss. Of these shares, 1.7 million would have been included in the calculation had we recorded net income for the six months ended March 31, 2018.

Non-Cash Investing and Financing Activities

Capital expenditures of $11.1 million and $14.0 million were accrued within accounts payable and other current liabilities at March 31, 2019 and 2018, respectively. At March 31, 2019 and 2018, there were $11.9 million and $12.3 million, respectively, of outstanding common stock share repurchases recorded in accounts payable that did not settle until the next fiscal quarter. These non-cash investing and financing activities have been excluded from cash used for capital expenditures and treasury stock purchases in the Consolidated Statement of Cash Flows.

Joint Venture Announcement

On February 19, 2019, we announced that we have entered into an agreement to create a new joint venture, Sensia, the first fully integrated digital oilfield automation solutions provider. The transaction is expected to close in calendar 2019, subject to receipt of regulatory approvals and satisfaction of other customary conditions. Under the terms of the agreement, Sensia will operate as an independent entity, with Rockwell Automation owning 53% and Schlumberger owning 47% of the joint venture. As part of the

ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

1. Basis of Presentation and Accounting Policies (continued)

transaction, we will make a $250 million payment to Schlumberger at closing, which will be funded by cash on hand. We expect that we will consolidate Sensia in our financial results. Sensia is expected to generate initial annual revenue of approximately $400 million, slightly less than half of which relates to businesses to be contributed to the joint venture by Rockwell Automation.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard, referred to as Accounting Standards Codification (ASC) 606, on revenue recognition related to contracts with customers. This standard supersedes nearly all existing revenue recognition guidance and involves a five-step principles-based approach to recognizing revenue. The underlying principle is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The new standard also requires additional qualitative and quantitative disclosures about contracts with customers, significant judgments made in applying the revenue guidance, and assets recognized from the costs to obtain or fulfill a contract. We adopted the new revenue standard using the modified retrospective transition method, which resulted in an adjustment to the opening balance of retained earnings as of October 1, 2018, our adoption date. The prior period information has not been restated and continues to be reported under the accounting standards in effect for the period presented. See Note 2 in the Consolidated Financial Statements for additional accounting policy and transition disclosures.

In March 2017, the FASB issued a new standard regarding the presentation of net periodic pension and postretirement benefit cost. This standard requires the service cost component to be reported in the income statement in the same line item as other compensation costs arising from services rendered by the related employees during the period. The other components of net periodic benefit cost are required to be presented separately from the service cost component in either a separate line item or within another appropriate line item with disclosure of where those costs are recorded. This standard also requires that only the service cost component is eligible for capitalization, when applicable. We adopted the new standard as of October 1, 2018 and applied the standard retrospectively. As a result of applying the pension standard retrospectively, the following adjustments were made to the Consolidated Statement of Operations (in millions):

	Three Months Ended March 31, 2018			Six Months Ended March 31, 2018		
	As Reported	Impact of adoption	As Restated	As Reported	Impact of adoption	As Restated
Cost of sales						
Products and solutions	$(838.8)	$ 2.7	$(836.1)	$(1,622.0)	$ 5.4	$(1,616.6)
Services	(111.6)	0.4	(111.2)	(217.9)	0.8	(217.1)
	(950.4)	3.1	(947.3)	(1,839.9)	6.2	(1,833.7)
Gross profit	700.8	3.1	703.9	1,397.9	6.2	1,404.1
Selling, general and administrative expenses	(389.2)	2.6	(386.6)	(778.5)	5.3	(773.2)
Other income (expense)	5.3	(5.7)	(0.4)	15.3	(11.5)	3.8

Effective October 1, 2018, we realigned our reportable segments for a transfer of business activities between our segments. We also reclassified interest income from General corporate - net to Interest (expense) income - net. As a result, the prior period presentation of reportable segments has been restated to conform to the current segment reporting structure. These changes did not impact the Consolidated Statement of Operations. See Note 14 in the Consolidated Financial Statements for additional information about the restatements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued a new standard on accounting for leases that requires lessees to recognize right-of-use assets and lease liabilities for most leases, among other changes to existing lease accounting guidance. The new standard also requires additional qualitative and quantitative disclosures about leasing activities. We intend to adopt this standard in the first fiscal quarter of 2020 and apply the new standard at the adoption date, and recognize a cumulative-effect adjustment to the opening balance of retained earnings.

We have established a project plan and a cross-functional implementation team to adopt and apply the new standard. We are in the process of implementing necessary changes to accounting policies, processes, controls and systems to enable compliance with this new standard. We continue to evaluate the impact the adoption of this standard will have on our consolidated financial statements and related disclosures.

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

2. Revenue Recognition

Adoption

On October 1, 2018, we adopted the new standard on revenue from contracts with customers using the modified retrospective method applied to contracts that were not completed as of October 1, 2018. Results for reporting periods beginning after October 1, 2018 are presented under the new standard, while prior period amounts have not been adjusted and continue to be reported in accordance with the previous standard.

As a result of applying the modified retrospective method, the following adjustments were made to the Consolidated Balance Sheet as of October 1, 2018 (in millions):

	September 30, 2018	Impact of Adoption	October 1, 2018
ASSETS			
Current assets:			
Receivables	$1,190.1	$ 4.5	$1,194.6
Other current assets	149.3	17.7	167.0
Deferred income taxes	179.6	1.2	180.8
Other assets	96.2	11.4	107.6
LIABILITIES AND SHAREOWNERS' EQUITY			
Current liabilities:			
Contract liabilities	$249.9	$ 18.7	$268.6
Customer returns, rebates and incentives	206.6	4.4	211.0
Other current liabilities	226.6	5.6	232.2
Shareowners' equity:			
Retained earnings	6,198.1	6.1	6,204.2

We recorded a net increase to opening retained earnings of $6.1 million as of October 1, 2018, which reflects the cumulative impact of adopting the new standard. The primary drivers of the impact to retained earnings were changes to the capitalization and deferral of certain contract costs and the timing of revenue, net of costs, for software licenses bundled with services and projects previously accounted for on a completed contract basis. This impact was partially offset by a deferral of revenue, net of costs, related to the allocation of revenue to hardware and software products and services provided to our customers free of charge as incentives.

Nature of Products and Services

Substantially all of our revenue is from contracts with customers. We recognize revenue as promised products are transferred to, or services are performed for, customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those products and services. Our offerings consist of industrial automation and information products, solutions and services. Our products include hardware and software. Our solutions include engineered-to-order and custom-engineered systems. Our services include customer technical support and repair, asset management and optimization consulting, and training. Also included in our services is a portion of revenue related to spare parts that are managed within our services offering.

Our operations are comprised of the Architecture & Software segment and the Control Products & Solutions segment. See Note 16 in the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018, for more information.

In most countries, we sell primarily through independent distributors in conjunction with our direct sales force. In other countries, we sell through a combination of our direct sales force, and to a lesser extent, through independent distributors.

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
2. Revenue Recognition (continued)

Performance Obligations
We use executed sales agreements and purchase orders to determine the existence of a customer contract.
For each customer contract, we determine if the products and services promised to the customer are distinct performance obligations. A product or service is distinct if both of the following criteria are met at contract inception: (i) the customer can benefit from the product or service on its own or together with other readily available resources, and (ii) our promise to transfer the product or perform the service is separately identifiable from other promises in the contract. The fact that we regularly sell a product or service separately is an indicator that the customer can benefit from a product or service on its own or with other readily available resources.
The objective when assessing whether our promises to transfer products or perform services are distinct within the context of the contract is to determine whether the nature of the promise is to transfer each of those products or perform those services individually, or whether the promise is to transfer a combined item or items to which the promised products or services are inputs. If a promised product or service is not distinct, we combine that product or service with other promised products or services until it comprises a bundle of products or services that is distinct, which may result in accounting for all the products or services in a contract as a single performance obligation.
For each performance obligation in a contract, we determine whether the performance obligation is satisfied over time. A performance obligation is satisfied over time if it meets any of the following criteria: (i) the customer simultaneously receives and consumes the benefits provided by our performance as we perform, (ii) our performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or (iii) our performance does not create an asset for which we have an alternative use and we have an enforceable right to payment for performance completed to date. If one or more of these criteria are met, then we recognize revenue over time using a method that depicts performance. If none of the criteria are met, then control transfers to the customer at a point in time and we recognize revenue at that point in time.
Our products represent standard, catalog products for which we have an alternative use, and therefore we recognize revenue at a point in time when control of the product transfers to the customer. For the majority of our products, control transfers upon shipment, though for some contracts control may transfer upon delivery. Our product revenue also includes revenue from software licenses. When these licenses are determined to be distinct performance obligations, we recognize the related revenue at a point in time when the customer is provided the right to use the license. Product-type contracts are generally one year or less in length.
We offer a wide variety of solutions and services to our customers, for which we recognize revenue over time or at a point in time based on the contract as well as the type of solution or service. If one or more of the three criteria above for over-time revenue recognition are met, we recognize revenue over time as cost is incurred, as work is performed, or based on time elapsed, depending on the type of customer contract. If none of these criteria are met, we recognize revenue at a point in time when control of the asset being created or enhanced transfers to the customer, typically upon delivery. More than half of our solutions and services revenue is from contracts that are one year or less in length. For certain solutions and services offerings, when we have the right to invoice our customers in an amount that corresponds to our performance completed to date, we apply the practical expedient to measure progress and recognize revenue based on the amount for which we have the right to invoice the customer.
When assessing whether we have an alternative use for an asset, we consider both contractual and practical limitations. These include: (i) the level and cost of customization of the asset that is required to meet a customer's needs, (ii) the activities, cost, and profit margin after any rework that would be required before the asset could be directed for another use, and (iii) the portion of the asset that could not be reworked for an alternative use.
At times we provide products and services free of charge to our customers as incentives when the customers purchase other products or services. These represent distinct performance obligations. As such, we allocate revenue to them based on relative standalone selling price.

Most of our global warranties are assurance in nature and do not represent distinct performance obligations. See Note 8 in the Consolidated Financial Statements for additional information and disclosures. We occasionally offer extended warranties to our customers that are considered a distinct performance obligation, to which we allocate revenue which is recognized over the extended warranty period.

We account for shipping and handling activities performed after control of a product has been transferred to the customer as a fulfillment cost. As such, we have applied the practical expedient and we accrue for the costs of shipping and handling activities if revenue is recognized before contractually agreed shipping and handling activities occur.

ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
2. Revenue Recognition (continued)

Unfulfilled Performance Obligations

As of March 31, 2019, we expect to recognize approximately $500 million of revenue in future periods from unfulfilled performance obligations from existing contracts with customers. We expect to recognize revenue of approximately $350 million of our remaining performance obligations over the next 12 months with the remaining balance recognized thereafter.

We have applied the practical expedient to exclude the value of remaining performance obligations for (i) contracts with an original term of one year or less and (ii) contracts for which we recognize revenue in proportion to the amount we have the right to invoice for services performed. The amounts above also do not include the impact of contract renewal options that are unexercised as of March 31, 2019.

Transaction Price

The transaction price is the amount of consideration to which we expect to be entitled in exchange for transferring products to, or performing services for a customer. We estimate the transaction price at contract inception, and update the estimate each reporting period for any changes in circumstances. In some cases a contract may involve variable consideration, including rebates, credits, allowances for returns or other similar items that generally decrease the transaction price. We use historical experience to estimate variable consideration, including any constraint.

The transaction price (including any discounts and variable consideration) is allocated between separate products and services based on their relative standalone selling prices. The standalone selling prices are determined based on the prices at which we separately sell each good or service. For items that are not sold separately, we estimate the standalone selling price using available information such as market reference points and other observable data.

We have elected the practical expedient to exclude sales taxes and other similar taxes from the measurement of the transaction price.

Significant Payment Terms

Our standard payment terms vary globally but do not result in a significant delay between the timing of invoice and payment. We occasionally negotiate other payment terms during the contracting process. We do not typically include significant financing components in our contracts with customers. We have elected the practical expedient to not adjust the transaction price for the period between transfer of products or performance of services and customer payment if expected to be one year or less.

For most of our products, we invoice at the time of shipment and we do not typically have significant contract balances. For our solutions and services as well as some of our products, timing may differ between revenue recognition and billing. Depending on the terms agreed to with the customer, we may invoice in advance of performance or we may invoice after performance. When revenue recognition exceeds billing we recognize a receivable, and when billing exceeds revenue recognition we recognize a contract liability.

Disaggregation of Revenue

The following series of tables present our revenue disaggregation by geographic region and types of products or services, and also present these disaggregation categories for our two operating segments. We attribute sales to the geographic regions based on the country of destination.

The following reflects the disaggregation of our revenues by operating segment and by geographic region (in millions):

	Three Months Ended March 31, 2019			Six Months Ended March 31, 2019		
	Architecture & Software	Control Products & Solutions	Total	Architecture & Software	Control Products & Solutions	Total
North America	$423.1	$564.0	$987.1	$865.9	$1,120.0	$1,985.9

Europe, Middle East and Africa (EMEA)	176.0	155.1	331.1	331.5	294.0	625.5
Asia Pacific	97.8	116.9	214.7	199.1	230.0	429.1
Latin America	42.8	81.5	124.3	96.3	162.7	259.0
Total Company Sales	$739.7	$917.5	$1,657.2	$1,492.8	$1,806.7	$3,299.5

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
2. Revenue Recognition (continued)

The following reflects the disaggregation of our revenues by operating segment and by major types of products or services (in millions):

	Three Months Ended March 31, 2019			Six Months Ended March 31, 2019		
	Architecture & Software	Control Products & Solutions	Total	Architecture & Software	Control Products & Solutions	Total
Products	$739.7	$372.3	$1,112.0	$1,492.8	$745.2	$2,238.0
Solutions & Services	—	545.2	545.2	—	1,061.5	1,061.5
Total Company Sales	$739.7	$917.5	$1,657.2	$1,492.8	$1,806.7	$3,299.5

Contract Balances

Contract liabilities primarily relate to consideration received in advance of performance under the contract. We do not have significant contract assets as of March 31, 2019.

Below is a summary of our contract liabilities balance:

	March 31, 2019
Balance as of beginning of fiscal year	$268.6
Balance as of end of period	308.9

The most significant changes in our contract liabilities balance during the six months ended March 31, 2019 were due to amounts billed, partially offset by revenue recognized that was included in the contract liabilities balance at the beginning of the period.

In the six months ended March 31, 2019, we recognized revenue of approximately $185 million that was included in the opening contract liabilities balance. We did not have a material amount of revenue recognized in the six months ended March 31, 2019 from performance obligations satisfied or partially satisfied in previous periods.

Costs to Obtain and Fulfill a Contract

We capitalize and amortize certain incremental costs to obtain and fulfill contracts. These costs primarily consist of incentives paid to sales personnel, which are considered incremental costs to obtain customer contracts. We elected the practical expedient to expense incremental costs to obtain a contract when the contract has a duration of one year or less. Our capitalized contract costs, which are included in other assets in our Consolidated Balance Sheet, are not significant. There was no impairment loss in relation to capitalized costs in the period.

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
2. Revenue Recognition (continued)

Dual Reporting

In accordance with ASC 606, the disclosure of the impact of adoption to the Consolidated Balance Sheet was as follows (in millions):

	March 31, 2019		
	As reported	Impact of Adoption	Balances without adoption of ASC 606
ASSETS			
Current assets:			
Receivables	$1,244.4	$(0.8)	$1,243.6
Other current assets	164.8	(15.2)	149.6
Deferred income taxes	200.0	(3.0)	197.0
Other assets	113.6	(10.5)	103.1
LIABILITIES AND SHAREOWNERS' EQUITY			
Current liabilities:			
Contract liabilities	$308.9	$(10.9)	$298.0
Customer returns, rebates and incentives	192.5	(2.2)	190.3
Other current liabilities	213.7	(8.0)	205.7
Shareowners' equity:			
Retained earnings	6,398.0	(8.6)	6,389.4
Accumulated other comprehensive loss	(940.3)	0.2	(940.1)

In accordance with ASC 606, the disclosure of the impact of adoption to the Consolidated Statement of Operations was as follows (in millions):

	Three Months Ended March 31, 2019			Six Months Ended March 31, 2019		
	As reported	Impact of Adoption	Balances without adoption of ASC 606	As reported	Impact of Adoption	Balances without adoption of ASC 606
Sales						
Products and solutions	$1,466.8	$(2.0)	$1,464.8	$2,924.4	$2.6	$2,927.0
Services	190.4	(7.2)	183.2	375.1	(16.4)	358.7
Cost of sales						
Products and solutions	(823.6)	(2.7)	(826.3)	(1,606.0)	(3.8)	(1,609.8)
Services	(125.4)	5.0	(120.4)	(246.6)	13.8	(232.8)
Income tax provision	(56.4)	2.0	(54.4)	(96.9)	1.3	(95.6)

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
2. Revenue Recognition (continued)

In accordance with ASC 606, the disclosure of the impact of adoption to the Consolidated Statement of Comprehensive Income was as follows (in millions):

	Three Months Ended March 31, 2019			Six Months Ended March 31, 2019		
	As reported	Impact of Adoption	Balances without adoption of ASC 606	As reported	Impact of Adoption	Balances without adoption of ASC 606
Net income	$346.0	$(4.8)	$341.2	$426.3	$(2.5)	$423.8
Other comprehensive income (loss), net of tax:						
Currency translation adjustments	19.0	—	19.0	(9.5)	0.2	(9.3)

In accordance with ASC 606, the disclosure of the impact of adoption to the Consolidated Statement of Cash Flows was as follows (in millions):

	Six Months Ended March 31, 2019		
	As reported	Impact of Adoption	Balances without adoption of ASC 606
Operating activities:			
Net income	$426.3	$(2.5)	$423.8
Receivables	(41.5)	(10.7)	(52.2)
Contract liabilities	41.2	15.4	56.6
Income taxes	(66.7)	(1.4)	(68.1)
Other assets and liabilities	(11.8)	(0.8)	(12.6)

In accordance with ASC 606, the disclosure of the impact of adoption to the Consolidated Statement of Shareowners' Equity was as follows (in millions):

	Three Months Ended March 31, 2019			Six Months Ended March 31, 2019		
	As reported	Impact of Adoption	Balances without adoption of ASC 606	As reported	Impact of Adoption	Balances without adoption of ASC 606
Retained earnings						
Beginning balance	$6,167.6	$(3.8)	$6,163.8	$6,204.2	$(6.1)	$6,198.1
Net income (loss)	346.0	(4.8)	341.2	426.3	(2.5)	423.8
Accumulated other comprehensive loss						
Other comprehensive income	36.6	—	36.6	1.6	0.2	1.8

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

3. Share-Based Compensation

We recognized $10.8 million and $21.8 million of pre-tax share-based compensation expense during the three and six months ended March 31, 2019, respectively. We recognized $10.2 million and $18.8 million of pre-tax share-based compensation expense during the three and six months ended March 31, 2018, respectively. Our annual grant of share-based compensation takes place during the first quarter of each fiscal year. The number of shares granted to employees and non-employee directors and the weighted average fair value per share during the periods presented were (in thousands, except per share amounts):

	Six Months Ended March 31,			
	2019		2018	
	Grants	Wtd. Avg. Share Fair Value	Grants	Wtd. Avg. Share Fair Value
Stock options	946	$ 32.48	856	$ 35.51
Performance shares	57	155.04	40	219.04
Restricted stock and restricted stock units	41	171.03	34	192.50
Unrestricted stock	6	183.02	7	183.76

4. Inventories

Inventories consist of (in millions):

	March 31, 2019	September 30, 2018
Finished goods	$ 268.9	$ 224.3
Work in process	203.5	180.0
Raw materials	193.0	177.3
Inventories	$ 665.4	$ 581.6

5. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the six months ended March 31, 2019, are (in millions):

	Architecture & Software	Control Products & Solutions	Total
Balance as of September 30, 2018	$ 422.3	$ 653.2	$ 1,075.5
Acquisition of business	14.6	—	14.6
Translation	(0.2)	(3.5)	(3.7)
Balance as of March 31, 2019	$ 436.7	$ 649.7	$ 1,086.4

Other intangible assets consist of (in millions):

	March 31, 2019		
	Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:			
Computer software products	$ 190.6	$ 123.3	$ 67.3
Customer relationships	113.0	69.0	44.0
Technology	112.1	67.3	44.8
Trademarks	32.6	25.8	6.8
Other	11.0	9.9	1.1

Total amortized intangible assets	459.3	295.3	164.0
Allen-Bradley® trademark not subject to amortization	43.7	—	43.7
Total	$503.0	$ 295.3	$207.7

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

5. Goodwill and Other Intangible Assets (continued)

	September 30, 2018		
	Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:			
Computer software products	$190.9	$ 118.1	$72.8
Customer relationships	112.9	66.2	46.7
Technology	106.8	64.0	42.8
Trademarks	32.0	24.0	8.0
Other	11.2	10.0	1.2
Total amortized intangible assets	453.8	282.3	171.5
Allen-Bradley® trademark not subject to amortization	43.7	—	43.7
Total	$497.5	$ 282.3	$215.2

Estimated amortization expense is $25.3 million in 2019, $22.7 million in 2020, $22.0 million in 2021, $20.0 million in 2022 and $18.8 million in 2023.

We performed our annual evaluation of goodwill and indefinite life intangible assets for impairment as required by accounting principles generally accepted in the United States (U.S. GAAP) during the second quarter of 2019 and concluded that these assets are not impaired.

6. Long-term and Short-term Debt

Long-term debt consists of (in millions):

	March 31, 2019	September 30, 2018
2.050% notes, payable in March 2020	$297.4	$294.6
2.875% notes, payable in March 2025	295.0	281.4
6.70% debentures, payable in January 2028	250.0	250.0
3.500% notes, payable in March 2029	425.0	—
6.25% debentures, payable in December 2037	250.0	250.0
4.200% notes, payable in March 2049	575.0	—
5.20% debentures, payable in January 2098	200.0	200.0
Unamortized discount and other	(62.6)	(50.8)
Total	2,229.8	1,225.2
Less current portion	(297.4)	—
Long-term debt	$1,932.4	$1,225.2

In March 2019, we issued $1 billion aggregate principal amount of long-term notes in a registered public offering. The offering consisted of $425.0 million of 3.500% notes due in March 2029 (2029 Notes) and $575.0 million of 4.200% notes due in March 2049 (2049 Notes), both issued at a discount. Net proceeds to the Company from the debt offering were $987.6 million. We used these net proceeds primarily to repay our outstanding commercial paper, with the remaining proceeds to be used for general corporate purposes.

We entered into treasury locks to manage the potential change in interest rates in anticipation of the issuance of $1.0 billion of fixed rate debt in March 2019. Treasury locks are accounted for as cash flow hedges. The effective differentials to be paid or received on these treasury locks were initially recorded in Accumulated Other Comprehensive Loss, net of tax effect.

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

6. Long-term and Short-term Debt (continued)

As a result of the changes in the interest rates on the treasury locks between the time we entered into the treasury locks and the time we priced and issued the 2029 Notes and 2049 Notes, the Company made a payment of $35.7 million to the counterparty on March 1, 2019. The $35.7 million loss on the settlement of the treasury locks was recorded in Accumulated Other Comprehensive Loss and is being amortized over the term of the 2029 Notes and 2049 Notes, respectively, and recognized as an adjustment to interest expense on the Consolidated Statement of Operations.

Our short-term debt obligations primarily consist of commercial paper borrowings. There were no commercial paper borrowings outstanding as of March 31, 2019. Commercial paper borrowings were $550.0 million at September 30, 2018. The weighted average interest rate of the commercial paper outstanding at September 30, 2018 was 2.27 percent.

7. Other Current Liabilities

Other current liabilities consist of (in millions):

	March 31, 2019	September 30, 2018
Unrealized losses on foreign exchange contracts	$ 5.9	$ 6.2
Product warranty obligations	25.3	27.9
Taxes other than income taxes	42.9	40.9
Accrued interest	15.9	12.3
Income taxes payable	62.3	74.4
Other	61.4	64.9
Other current liabilities	$ 213.7	$ 226.6

8. Product Warranty Obligations

We record a liability for product warranty obligations at the time of sale to a customer based upon historical warranty experience. Most of our products are covered under a warranty period that runs for twelve months from either the date of sale or installation. We also record a liability for specific warranty matters when they become probable and reasonably estimable.

Changes in product warranty obligations are (in millions):

	Six Months Ended March 31,	
	2019	2018
Balance at beginning of period	$ 27.9	$ 28.5
Accruals for warranties issued during the current period	11.0	12.9
Adjustments to pre-existing warranties	(4.3)	2.7
Settlements of warranty claims	(9.3)	(11.9)
Balance at end of period	$ 25.3	$ 32.2

9. Investments

Our investments consist of (in millions):

	March 31, 2019	September 30, 2018
Fixed income securities	$ 190.0	$ 419.0
Equity securities	975.5	1,090.0
Other	68.6	69.9
Total investments	1,234.1	1,578.9
Less short-term investments	(122.2)	(290.9)
Long-term investments	$ 1,111.9	$ 1,288.0

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

9. Investments (continued)
We record investments in fixed income and equity securities at fair value. Fixed income investments are classified as available-for-sale investments.
Available-for-sale Investments
We invest in certificates of deposit, time deposits, commercial paper and other fixed income securities that are classified as available-for-sale. Unrealized gains and losses on available-for-sale investments are included in our Consolidated Balance Sheet as a component of Accumulated other comprehensive loss, net of any deferred taxes. Realized gains and losses are included in net income.
Our available-for-sale investments consist of (in millions):

	March 31, 2019	September 30, 2018
Certificates of deposit and time deposits	$ 0.6	$ 169.6
Corporate debt securities	132.5	158.4
Government securities	39.9	65.8
Asset-backed securities	17.0	25.2
Total	$ 190.0	$ 419.0

Pre-tax gross unrealized gains and losses on available-for-sale investments were not material as of March 31, 2019. Pre-tax gross realized gains and losses on available-for-sale investments were not material for the three and six months ended March 31, 2019. At March 31, 2019, there were no outstanding purchases of available-for-sale investments recorded in accounts payable.
We evaluated all available-for-sale investments for which the fair value was less than amortized cost for impairment on an individual security basis at March 31, 2019. This assessment included consideration of our intent and ability to hold the security and the credit risks specific to each security. We determined that the declines in fair value of these investments were not other than temporary as of March 31, 2019, and accordingly we did not recognize any impairment charges in net income.
The table below summarizes the contractual maturities of our investments as of March 31, 2019 (in millions). Actual maturities may differ from the contractual maturities below as borrowers may have the right to prepay certain obligations.

	Fair Value
Less than one year	$ 122.2
Due in one to five years	67.8
Total	$ 190.0

Classification of our available-for-sale investments as current or noncurrent is based on the nature of the investment and when the investment is reasonably expected to be realized. These investments were included in the following line items within the Consolidated Balance Sheet (in millions):

	March 31, 2019	September 30, 2018
Short-term investments	$ 122.2	$ 290.9
Long-term investments	67.8	128.1
Total	$ 190.0	$ 419.0

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

9. Investments (continued)

Equity Securities

On July 19, 2018, we purchased 10,582,010 shares of PTC Inc. ("PTC") common stock (the "PTC Shares") in a private placement at a purchase price of $94.50 per share for an aggregate purchase price of approximately $1.0 billion (the "Purchase"). The PTC Shares are considered equity securities. For a period of approximately 3 years after the Purchase, we are subject to entity-specific transfer restrictions subject to certain exceptions. Following the first anniversary of the Purchase, the Company will be allowed to transfer, in the aggregate in any 90-day period, a number of PTC Shares equal to up to 1.0% of PTC's total outstanding shares of common stock as of the first day in such 90-day period, but no more than 2.0% of PTC's total outstanding shares of common stock in each of the second year and the third year after the Purchase.

The PTC Shares are recorded at fair value. At March 31, 2019, the fair value of the PTC Shares was $975.5 million, which was recorded in long-term investments in the Consolidated Balance Sheet. For the three and six months ended March 31, 2019, gains of $98.2 million and losses of $114.5 million, respectively, related to the PTC Shares were recorded in Other income (expense) in the Consolidated Statement of Operations. During the first quarter of fiscal 2019, the PTC Shares were registered by PTC under the Securities Act of 1933, as amended, and the discount for lack of marketability was reversed.

Fair Value of Investments

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. U.S. GAAP also classifies the inputs used to measure fair value into the following hierarchy:

Level 1:	Quoted prices in active markets for identical assets or liabilities.
Level 2:	Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
Level 3:	Unobservable inputs for the asset or liability.

We recognize all available-for-sale and trading investments at fair value in the Consolidated Balance Sheet. The valuation methodologies used for our investments measured at fair value are described as follows.

Certificates of deposit and time deposits — These investments are stated at cost, which approximates fair value.

Commercial paper — These investments are stated at amortized cost, which approximates fair value.

Corporate debt securities — Valued at either the yields currently available on comparable securities of issuers with similar credit ratings or valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.

Government securities — Valued at the most recent closing price on the active market on which the individual securities are traded or, absent an active market, utilizing observable inputs such as closing prices in less frequently traded markets.

Asset-backed securities — Valued using a discounted cash flow approach that maximizes observable inputs, such as current yields of benchmark instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.

Equity securities — Prior to their registration, the PTC Shares were valued using the most recent closing price of PTC common stock quoted on Nasdaq, less a temporary discount for lack of marketability. The discount for lack of marketability was calculated using a put-option model which includes observable and unobservable inputs and was categorized as Level 3 in the fair value hierarchy. As a result of the registration of the PTC Shares and reversal of the discount during the first quarter of fiscal 2019, these securities were transferred from Level 3 to Level 1.

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

9. Investments (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. We did not have any other transfers between levels of fair value measurements during the periods presented.
Fair values of our investments were (in millions):

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Certificates of deposit and time deposits	$—	$0.6	$ —	$0.6
Corporate debt securities	—	132.5	—	132.5
Government securities	36.6	3.3	—	39.9
Asset-backed securities	—	17.0	—	17.0
Equity securities	975.5	—	—	975.5
Total	$1,012.1	$153.4	$ —	$1,165.5

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Certificates of deposit and time deposits	$—	$169.6	$—	$169.6
Corporate debt securities	—	158.4	—	158.4
Government securities	55.7	10.1	—	65.8
Asset-backed securities	—	25.2	—	25.2
Equity securities	—	—	1,090.0	1,090.0
Total	$55.7	$363.3	$1,090.0	$1,509.0

The table below sets forth a summary of changes in the fair value of our Level 3 investments (in millions):

	Fair Value
Balance September 30, 2018	$1,090.0
Unrealized loss	(149.0)
Transfer to Level 1 upon registration of PTC Shares on November 28, 2018	(941.0)
Balance March 31, 2019	$—

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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10. Retirement Benefits
The components of net periodic benefit cost are (in millions):

	Pension Benefits Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Service cost	$19.5	$22.4	$39.1	$44.6
Interest cost	39.6	39.0	79.2	77.8
Expected return on plan assets	(61.2)	(61.5)	(122.4)	(122.7)
Amortization:				
Prior service cost	0.3	0.1	0.6	0.3
Net actuarial loss	19.5	28.4	39.0	56.7
Settlements	(0.2)	—	(0.4)	—
Net periodic benefit cost	$17.5	$28.4	$35.1	$56.7

	Other Postretirement Benefits Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Service cost	$0.3	$0.3	$0.5	$0.6
Interest cost	0.5	0.6	1.1	1.2
Amortization:				
Prior service credit	(1.3)	(1.4)	(2.7)	(2.7)
Net actuarial loss	0.2	0.5	0.4	0.9
Net periodic benefit credit	$(0.3)	$—	$(0.7)	$—

The service cost component is included in Cost of sales and Selling, general and administrative expenses in the Consolidated Statement of Operations. All other components are included in Other income (expense) in the Consolidated Statement of Operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

11. Accumulated Other Comprehensive Loss
Changes in accumulated other comprehensive loss by component were (in millions):
Three Months Ended March 31, 2019

	Pension and other postretirement benefit plan adjustments, net of tax	Accumulated currency translation adjustments, net of tax	Net unrealized gains (losses) on cash flow hedges, net of tax	Net unrealized gains (losses) on available-for-sale investments, net of tax	Total accumulated other comprehensive loss, net of tax
Balance as of December 31, 2018	$ (644.3)	$ (314.5)	$ (16.4)	$ (1.7)	$ (976.9)
Other comprehensive income before reclassifications	—	19.0	5.2	0.9	25.1
Amounts reclassified from accumulated other comprehensive loss	14.2	—	(2.7)	—	11.5
Other comprehensive income	14.2	19.0	2.5	0.9	36.6
Balance as of March 31, 2019	$ (630.1)	$ (295.5)	$ (13.9)	$ (0.8)	$ (940.3)

Six Months Ended March 31, 2019

	Pension and other postretirement benefit plan adjustments, net of tax	Accumulated currency translation adjustments, net of tax	Net unrealized gains (losses) on cash flow hedges, net of tax	Net unrealized gains (losses) on available-for-sale investments, net of tax	Total accumulated other comprehensive loss, net of tax
Balance as of September 30, 2018	$ (658.1)	$ (286.0)	$ 4.4	$ (2.2)	$ (941.9)
Other comprehensive income (loss) before reclassifications	(0.3)	(9.5)	(14.0)	1.4	(22.4)
Amounts reclassified from accumulated other comprehensive loss	28.3	—	(4.3)	—	24.0
Other comprehensive income (loss)	28.0	(9.5)	(18.3)	1.4	1.6
Balance as of March 31, 2019	$ (630.1)	$ (295.5)	$ (13.9)	$ (0.8)	$ (940.3)

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

11. Accumulated Other Comprehensive Loss (continued)
Changes in accumulated other comprehensive loss by component were (in millions):
Three Months Ended March 31, 2018

	Pension and other postretirement benefit plan adjustments, net of tax	Accumulated currency translation adjustments, net of tax	Net unrealized gains (losses) on cash flow hedges, net of tax	Net unrealized gains (losses) on available-for-sale investments, net of tax	Total accumulated other comprehensive loss, net of tax
Balance as of December 31, 2017	$ (906.8)	$ (253.8)	$ (13.9)	$ (1.2)	$ (1,175.7)
Other comprehensive income (loss) before reclassifications	—	76.5	(6.0)	(1.5)	69.0
Amounts reclassified from accumulated other comprehensive loss	20.2	—	5.0	—	25.2
Other comprehensive income (loss)	20.2	76.5	(1.0)	(1.5)	94.2
Balance as of March 31, 2018	$ (886.6)	$ (177.3)	$ (14.9)	$ (2.7)	$ (1,081.5)

Six Months Ended March 31, 2018

	Pension and other postretirement benefit plan adjustments, net of tax	Accumulated currency translation adjustments, net of tax	Net unrealized gains (losses) on cash flow hedges, net of tax	Net unrealized gains (losses) on available-for-sale investments, net of tax	Total accumulated other comprehensive loss, net of tax
Balance as of September 30, 2017	$ (927.0)	$ (237.7)	$ (14.4)	$ (0.1)	$ (1,179.2)
Other comprehensive income (loss) before reclassifications	—	60.4	(9.4)	(2.6)	48.4
Amounts reclassified from accumulated other comprehensive loss	40.4	—	8.9	—	49.3
Other comprehensive income (loss)	40.4	60.4	(0.5)	(2.6)	97.7
Balance as of March 31, 2018	$ (886.6)	$ (177.3)	$ (14.9)	$ (2.7)	$ (1,081.5)

11. Accumulated Other Comprehensive Loss (continued)

The reclassifications out of accumulated other comprehensive loss to the Consolidated Statement of Operations were (in millions):

	Three Months Ended March 31,		Six Months Ended March 31,		Affected Line in the Consolidated Statement of Operations
	2019	2018	2019	2018	
Pension and other postretirement benefit plan adjustments:					
Amortization of prior service credit	$(1.0)	$(1.3)	$(2.1)	$(2.4)	(a)
Amortization of net actuarial loss	19.7	28.9	39.4	57.6	(a)
Settlements	(0.2)	—	(0.4)	—	(a)
	18.5	27.6	36.9	55.2	Income before income taxes
	(4.3)	(7.4)	(8.6)	(14.8)	Income tax provision
	$14.2	$20.2	$28.3	$40.4	Net income
Net unrealized losses (gains) on cash flow hedges:					
Forward exchange contracts	$(0.6)	$(0.8)	$(0.2)	$(1.3)	Sales
Forward exchange contracts	(3.3)	8.4	(6.5)	14.3	Cost of sales
Forward exchange contracts	—	(0.8)	0.5	(1.0)	Selling, general and administrative expenses
Treasury locks related to 2019 debt issuance	0.2	—	0.2	—	Interest expense
	(3.7)	6.8	(6.0)	12.0	Income before income taxes
	1.0	(1.8)	1.7	(3.1)	Income tax provision
	$(2.7)	$5.0	$(4.3)	$8.9	Net income
Total reclassifications	$11.5	$25.2	$24.0	$49.3	Net income

(a) Reclassified from accumulated other comprehensive loss into other income (expense). These components are included in the computation of net periodic benefit cost (credit). See Note 10 in the Consolidated Financial Statements for further information.

ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

12. Commitments and Contingent Liabilities

Various lawsuits, claims and proceedings have been or may be instituted or asserted against us relating to the conduct of our business, including those pertaining to product liability, environmental, safety and health, intellectual property, employment and contract matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, we believe the disposition of matters that are pending or have been asserted will not have a material effect on our business, financial condition or results of operations.

We (including our subsidiaries) have been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos that was used in certain components of our products many years ago. Currently there are a few thousand claimants in lawsuits that name us as defendants, together with hundreds of other companies. In some cases, the claims involve products from divested businesses, and we are indemnified for most of the costs. However, we have agreed to defend and indemnify asbestos claims associated with products manufactured or sold by our former Dodge mechanical and Reliance Electric motors and motor repair services businesses prior to their divestiture by us, which occurred on January 31, 2007. We are also responsible for half of the costs and liabilities associated with asbestos cases against our former Rockwell International Corporation's divested measurement and flow control business. But in all cases, for those claimants who do show that they worked with our products or products of divested businesses for which we are responsible, we nevertheless believe we have meritorious defenses, in substantial part due to the integrity of the products, the encapsulated nature of any asbestos-containing components, and the lack of any impairing medical condition on the part of many claimants. We defend those cases vigorously. Historically, we have been dismissed from the vast majority of these claims with no payment to claimants.

We have maintained insurance coverage that we believe covers indemnity and defense costs, over and above self-insured retentions, for claims arising from our former Allen-Bradley subsidiary. Following litigation against Nationwide Indemnity Company (Nationwide) and Kemper Insurance (Kemper), the insurance carriers that provided liability insurance coverage to Allen-Bradley, we entered into separate agreements on April 1, 2008 with both insurance carriers to further resolve responsibility for ongoing and future coverage of Allen-Bradley asbestos claims. In exchange for a lump sum payment, Kemper bought out its remaining liability and has been released from further insurance obligations to Allen-Bradley. Nationwide entered into a cost share agreement with us to pay the substantial majority of future defense and indemnity costs for Allen-Bradley asbestos claims. We believe that this arrangement with Nationwide will continue to provide coverage for Allen-Bradley asbestos claims throughout the remaining life of the asbestos liability.

We also have rights to historic insurance policies that provide indemnity and defense costs, over and above self-insured retentions, for claims arising out of certain asbestos liabilities relating to the divested measurement and flow control business. Following litigation against several insurers to pursue coverage for these claims, we entered into separate agreements with the insurers that resulted in both lump sum payments and coverage-in-place agreements. We believe these arrangements will provide substantial coverage for future defense and indemnity costs for these asbestos claims throughout the remaining life of asbestos liability.

The uncertainties of asbestos claim litigation make it difficult to predict accurately the ultimate outcome of asbestos claims. That uncertainty is increased by the possibility of adverse rulings or new legislation affecting asbestos claim litigation or the settlement process. Subject to these uncertainties and based on our experience defending asbestos claims, we do not believe these lawsuits will have a material effect on our business, financial condition or results of operations.

We have, from time to time, divested certain of our businesses. In connection with these divestitures, certain lawsuits, claims and proceedings may be instituted or asserted against us related to the period that we owned the businesses, either because we agreed to retain certain liabilities related to these periods or because such liabilities fall upon us by operation of law. In some instances the divested business has assumed the liabilities; however, it is possible that we might be responsible to satisfy those liabilities if the divested business is unable to do so.

In connection with the spin-offs of our former automotive business, semiconductor systems business and Rockwell Collins avionics and communications business, the spun-off companies have agreed to indemnify us for substantially all contingent liabilities related to the respective businesses, including environmental and intellectual property matters.

In conjunction with the sale of our Dodge mechanical and Reliance Electric motors and motor repair services businesses, we agreed to indemnify Baldor Electric Company for costs and damages related to certain legal, legacy environmental and asbestos matters of these businesses arising before January 31, 2007, for which the maximum exposure would be capped at the amount received for the sale.

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ROCKWELL AUTOMATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

12. Commitments and Contingent Liabilities (continued)

In many countries we provide a limited intellectual property indemnity as part of our terms and conditions of sale. We also at times provide limited intellectual property indemnities in other contracts with third parties, such as contracts concerning the development and manufacture of our hardware and software products. As of March 31, 2019, we were not aware of any material indemnification claims that were probable or reasonably possible of an unfavorable outcome. Historically, claims that have been made under the indemnification agreements have not had a material impact on our business, financial condition or results of operations; however, to the extent that valid indemnification claims arise in the future, future payments by us could be significant and could have a material adverse effect on our business, financial condition or results of operations in a particular period.

13. Income Taxes

At the end of each interim period, we estimate a base effective tax rate that we expect for the full fiscal year based on our most recent forecast of pre-tax income, permanent book and tax differences and global tax planning strategies. We use this base rate to provide for income taxes on a year-to-date basis, excluding the effect of significant unusual items and items that are reported net of their related tax effects in the period in which they occur.

Our base rate reflects a change in the U.S. federal statutory rate from 35 percent to 21 percent resulting from the enactment of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) on December 22, 2017. The statutory tax rate for our fiscal year 2019 is 21 percent.

The effective tax rate was 14.0 percent and 18.5 percent in the three and six months ended March 31, 2019, respectively, compared to 24.1 percent and 101.5 percent in the three and six months ended March 31, 2018. The effective tax rate was lower than the U.S. statutory rate of 21 percent in the three months ended March 31, 2019, primarily because of the PTC investment adjustments without a corresponding tax effect. The effective tax rate was lower than the U.S. statutory rate of 21 percent in the six months ended March 31, 2019, primarily because we benefited from lower non-U.S. tax rates. The effective tax rate was lower than the U.S statutory rate of 24.5 percent in the three months ended March 31, 2018, primarily because we benefited from lower non-US tax rates, partially offset by provisional tax charges ($11.5 million or 3.8 percent) resulting from the Tax Act. The effective tax rate was higher than the U.S. statutory rate of 24.5 percent in the six months ended March 31, 2018, due to provisional tax expense ($491.2 million or 81.8 percent) resulting from the Tax Act.

During the first quarter of fiscal year 2019, the Company completed its analysis of the impact of the Tax Act in accordance with the SEC Staff Accounting Bulletin No. 118 ("SAB 118") and the amounts are no longer considered provisional. This resulted in no change to the provisional amounts recorded in fiscal year 2018 related to the revaluation of U.S. deferred tax assets and liabilities and the one-time transition tax liability on earnings of our foreign subsidiaries that were previously deferred from U.S. income tax.

Unrecognized Tax Benefits

The amount of gross unrecognized tax benefits was $20.1 million at March 31, 2019 and September 30, 2018, of which the entire amount would reduce our effective tax rate if recognized.

Accrued interest and penalties related to unrecognized tax benefits were $2.9 million and $2.5 million at March 31, 2019 and September 30, 2018, respectively. We recognize interest and penalties related to unrecognized tax benefits in the income tax provision.

We believe it is reasonably possible that the amount of gross unrecognized tax benefits could be reduced by up to $6.0 million in the next 12 months as a result of the resolution of tax matters in various global jurisdictions and the lapses of statutes of limitations. If all of the unrecognized tax benefits were recognized, the net reduction to our income tax provision, including the recognition of interest and penalties and offsetting tax assets, could be up to $5.6