

ROCKWELL AUTOMATION INC

Form 10-Q

May 05, 2011

Table of Contents

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, 2011
Commission file number 1-12383
Rockwell Automation, Inc.
 (Exact name of registrant as specified in its charter)

Delaware
 (State or other jurisdiction
 of incorporation or organization)

25-1797617
 (I.R.S. Employer
 Identification No.)

1201 South Second Street, Milwaukee, Wisconsin
 (Address of principal executive offices)

53204
 (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

144,307,744 shares of registrant's Common Stock, \$1.00 par value, were outstanding on March 31, 2011.

ROCKWELL AUTOMATION, INC.
INDEX

Page No.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements:

Condensed Consolidated Balance Sheet March 31, 2011 and September 30, 2010 2

Condensed Consolidated Statement of Operations Three and Six Months Ended March 31, 2011 and 2010 3

Condensed Consolidated Statement of Cash Flows Six Months Ended March 31, 2011 and 2010 4

Notes to Condensed Consolidated Financial Statements 5

Report of Independent Registered Public Accounting Firm 15

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 16

Item 3. Quantitative and Qualitative Disclosures About Market Risk 32

Item 4. Controls and Procedures 32

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 33

Item 1A. Risk Factors 33

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 33

Item 6. Exhibits 34

Signatures 35

EX-12

EX-15

EX-31.1

EX-31.2

EX-32.1

EX-32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements**

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

	March 31, 2011	September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,020.3	\$ 813.4
Receivables	1,005.7	859.0
Inventories	621.9	603.3
Deferred income taxes	182.5	170.2
Other current assets	117.4	140.7
Total current assets	2,947.8	2,586.6
Property, net of accumulated depreciation of \$1,203.8 and \$1,185.5, respectively	531.3	536.9
Goodwill	926.1	912.5
Other intangible assets, net	210.2	217.3
Deferred income taxes	315.3	324.5
Prepaid pension	34.9	28.3
Other assets	145.5	142.2
TOTAL	\$ 5,111.1	\$ 4,748.3

LIABILITIES AND SHAREOWNERS EQUITY

Current liabilities:		
Accounts payable	\$ 472.7	\$ 435.7
Compensation and benefits	197.1	300.1
Advance payments from customers and deferred revenue	202.7	184.9
Customer returns, rebates and incentives	127.0	119.5
Other current liabilities	177.6	182.1
Total current liabilities	1,177.1	1,222.3
Long-term debt	904.9	904.9
Retirement benefits	938.8	923.4
Other liabilities	233.4	237.3
Commitments and contingent liabilities (Note 10)		

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Shareowners equity:		
Common stock (shares issued: 181.4)	181.4	181.4
Additional paid-in capital	1,361.7	1,344.2
Retained earnings	3,112.4	2,912.4
Accumulated other comprehensive loss	(770.3)	(841.2)
Common stock in treasury, at cost (shares held: March 31, 2011, 37.1; September 30, 2010, 39.7)	(2,028.3)	(2,136.4)
Total shareowners equity	1,856.9	1,460.4
TOTAL	\$ 5,111.1	\$ 4,748.3

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Sales				
Products and solutions	\$ 1,329.4	\$ 1,049.1	\$ 2,565.1	\$ 1,998.4
Services	134.7	115.4	264.8	233.6
	1,464.1	1,164.5	2,829.9	2,232.0
Cost of sales				
Products and solutions	(795.1)	(612.8)	(1,528.4)	(1,172.4)
Services	(92.5)	(78.6)	(181.1)	(159.7)
	(887.6)	(691.4)	(1,709.5)	(1,332.1)
Gross profit	576.5	473.1	1,120.4	899.9
Selling, general and administrative expenses	(356.1)	(323.2)	(703.1)	(635.7)
Other (expense) income	(1.4)	(1.2)	3.2	(2.8)
Interest expense	(15.4)	(15.1)	(30.2)	(30.5)
Income from continuing operations before income taxes	203.6	133.6	390.3	230.9
Income tax provision	(37.2)	(21.7)	(73.8)	(41.2)
Income from continuing operations	166.4	111.9	316.5	189.7
Income from discontinued operations		25.1		23.9
Net income	\$ 166.4	\$ 137.0	\$ 316.5	\$ 213.6
Basic earnings per share:				
Continuing operations	\$ 1.16	\$ 0.78	\$ 2.21	\$ 1.33
Discontinued operations		0.18		0.17
Net income	\$ 1.16	\$ 0.96	\$ 2.21	\$ 1.50

Diluted earnings per share:

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Continuing operations	\$	1.14	\$	0.77	\$	2.17	\$	1.31
Discontinued operations				0.18				0.17
Net income	\$	1.14	\$	0.95	\$	2.17	\$	1.48
Cash dividends per share	\$	0.35	\$	0.29	\$	0.70	\$	0.58
Weighted average outstanding shares:								
Basic		143.4		142.4		142.6		142.2
Diluted		146.3		144.4		145.4		144.1

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Six Months Ended March 31,	
	2011	2010
Continuing operations:		
Operating activities:		
Net income	\$ 316.5	\$ 213.6
Income from discontinued operations		(23.9)
Income from continuing operations	316.5	189.7
Adjustments to arrive at cash provided by operating activities:		
Depreciation	46.4	48.8
Amortization of intangible assets	17.3	14.8
Share-based compensation expense	19.2	17.9
Retirement benefits expense	50.5	42.4
Pension trust contributions	(15.5)	(14.6)
Net (gain) loss on disposition of property and investments	(2.2)	1.0
Income tax benefit from the exercise of stock options	3.0	0.2
Excess income tax benefit from share-based compensation	(35.7)	(7.4)
Changes in assets and liabilities, excluding effects of foreign currency adjustments:		
Receivables	(123.7)	(78.0)
Inventories	(6.5)	(94.1)
Accounts payable	30.8	65.7
Compensation and benefits	(105.8)	49.5
Income taxes	37.4	19.2
Other assets and liabilities	6.1	42.8
Cash provided by operating activities	237.8	297.9
Investing activities:		
Capital expenditures	(42.9)	(30.5)
Proceeds from sale of property and investments	4.1	4.5
Cash used for investing activities	(38.8)	(26.0)
Financing activities:		
Cash dividends	(100.0)	(82.7)
Purchases of treasury stock	(104.2)	(22.6)
Proceeds from the exercise of stock options	159.1	16.2
Excess income tax benefit from share-based compensation	35.7	7.4
Other financing activities	(0.2)	(0.3)
Cash used for financing activities	(9.6)	(82.0)

Effect of exchange rate changes on cash	17.9	(16.3)
Cash provided by continuing operations	207.3	173.6
Discontinued operations:		
Cash used for discontinued operating activities	(0.4)	(0.2)
Cash used for discontinued operations	(0.4)	(0.2)
Increase in cash and cash equivalents	206.9	173.4
Cash and cash equivalents at beginning of period	813.4	643.8
Cash and cash equivalents at end of period	\$ 1,020.3	\$ 817.2

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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 six month periods ended March 31, 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 March 31, 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 \$10.0 million at March 31, 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 March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Income from continuing operations	\$ 166.4	\$ 111.9	\$ 316.5	\$ 189.7
Less: Allocation to participating securities	(0.3)	(0.2)	(0.7)	(0.4)
Income from continuing operations available to common shareowners	\$ 166.1	\$ 111.7	\$ 315.8	\$ 189.3
Income from discontinued operations	\$	\$ 25.1	\$	\$ 23.9
Less: Allocation to participating securities		(0.1)		(0.1)
Income from discontinued operations available to common shareowners	\$	\$ 25.0	\$	\$ 23.8
Net income	\$ 166.4	\$ 137.0	\$ 316.5	\$ 213.6
Less: Allocation to participating securities	(0.3)	(0.3)	(0.7)	(0.5)
Net income available to common shareowners	\$ 166.1	\$ 136.7	\$ 315.8	\$ 213.1
Basic weighted average outstanding shares	143.4	142.4	142.6	142.2
Effect of dilutive securities				
Stock options	2.5	1.7	2.4	1.6
Performance shares	0.4	0.3	0.4	0.3
Diluted weighted average outstanding shares	146.3	144.4	145.4	144.1

Basic earnings per share:

Continuing operations	\$	1.16	\$	0.78	\$	2.21	\$	1.33
Discontinued operations				0.18				0.17
Net income	\$	1.16	\$	0.96	\$	2.21	\$	1.50

Diluted earnings per share:

Continuing operations	\$	1.14	\$	0.77	\$	2.17	\$	1.31
Discontinued operations				0.18				0.17
Net income	\$	1.14	\$	0.95	\$	2.17	\$	1.48

For the three and six months ended March 31, 2011, share-based compensation awards for 1.7 million shares and 2.4 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive. For the three and six months ended March 31, 2010, share-based compensation awards for 5.5 million shares and 5.6 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive.

Table of Contents

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

2. Share-Based Compensation

We recognized \$10.1 million and \$19.2 million of pre-tax share-based compensation expense during the three and six months ended March 31, 2011, respectively. We recognized \$9.2 million and \$17.9 million of pre-tax share-based compensation expense during the three and six months ended March 31, 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):

	Six Months Ended March 31,			
	2011	Wtd. Avg. Share Fair Value	2010	Wtd. Avg. Share Fair Value
	Grants		Grants	
Stock options	1,708	\$ 21.28	2,169	\$ 13.59
Performance shares	77	87.00	146	54.81
Restricted stock and restricted stock units	60	72.30	146	43.66
Unrestricted stock	11	69.79	11	44.20

3. Inventories

Inventories consist of (in millions):

	March 31, 2011	September 30, 2010
Finished goods	\$ 242.2	\$ 244.2
Work in process	149.2	144.1
Raw materials, parts and supplies	230.5	215.0
 Inventories	 \$ 621.9	 \$ 603.3

We report inventories net of the allowance for excess and obsolete inventory of \$48.3 million at March 31, 2011 and \$46.3 million at September 30, 2010.

Table of Contents

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

4. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the six months ended March 31, 2011 are (in millions):

	Control
Architecture & Software	Products & Solutions