

ROCKWELL AUTOMATION INC

Form 10-Q

February 03, 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 December 31, 2010
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 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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

142,346,165 shares of registrant's Common Stock, \$1.00 par value, were outstanding on December 31, 2010.

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

	December 31, 2010	September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 769.3	\$ 813.4
Receivables	950.9	859.0
Inventories	612.6	603.3
Deferred income taxes	173.3	170.2
Other current assets	125.6	140.7
Total current assets	2,631.7	2,586.6
Property, net of accumulated depreciation of \$1,186.0 and \$1,185.5, respectively	530.7	536.9
Goodwill	908.2	912.5
Other intangible assets, net	210.3	217.3
Deferred income taxes	323.8	324.5
Prepaid pension	30.6	28.3
Other assets	143.6	142.2
TOTAL	\$ 4,778.9	\$ 4,748.3
LIABILITIES AND SHAREOWNERS EQUITY		
Current liabilities:		
Accounts payable	\$ 422.6	\$ 435.7
Compensation and benefits	158.2	300.1
Advance payments from customers and deferred revenue	211.0	184.9
Customer returns, rebates and incentives	122.5	119.5
Other current liabilities	205.8	182.1
Total current liabilities	1,120.1	1,222.3
Long-term debt	904.9	904.9
Retirement benefits	931.0	923.4
Other liabilities	236.8	237.3
Commitments and contingent liabilities (Note 10)		
Shareowners equity:		
Common stock (shares issued: 181.4)	181.4	181.4

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Additional paid-in capital	1,350.4	1,344.2
Retained earnings	2,996.5	2,912.4
Accumulated other comprehensive loss	(830.0)	(841.2)
Common stock in treasury, at cost (shares held: December 31, 2010, 39.0; September 30, 2010, 39.7)	(2,112.2)	(2,136.4)
Total shareowners' equity	1,586.1	1,460.4
TOTAL	\$ 4,778.9	\$ 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 December 31,	
	2010	2009
Sales		
Products and solutions	\$ 1,235.7	\$ 949.3
Services	130.1	118.2
	1,365.8	1,067.5
Cost of sales		
Products and solutions	(733.3)	(559.6)
Services	(88.6)	(81.1)
	(821.9)	(640.7)
Gross profit	543.9	426.8
Selling, general and administrative expenses	(347.0)	(312.5)
Other income (expense)	4.6	(1.6)
Interest expense	(14.8)	(15.4)
Income from continuing operations before income taxes	186.7	97.3
Income tax provision	(36.6)	(19.5)
Income from continuing operations	150.1	77.8
Loss from discontinued operations		(1.2)
Net income	\$ 150.1	\$ 76.6
Basic earnings per share:		
Continuing operations	\$ 1.06	\$ 0.55
Discontinued operations		(0.01)
Net income	\$ 1.06	\$ 0.54
Diluted earnings per share:		
Continuing operations	\$ 1.04	\$ 0.54
Discontinued operations		(0.01)

Net income	\$	1.04	\$	0.53
Cash dividends per share	\$	0.35	\$	0.29
Weighted average outstanding shares:				
Basic		141.8		142.0
Diluted		144.5		143.7

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended December 31,	
	2010	2009
Continuing operations:		
Operating activities:		
Net income	\$ 150.1	\$ 76.6
Loss from discontinued operations		1.2
Income from continuing operations	150.1	77.8
Adjustments to arrive at cash provided by operating activities:		
Depreciation	22.8	24.7
Amortization of intangible assets	9.1	7.0
Share-based compensation expense	9.1	8.7
Retirement benefits expense	25.2	21.4
Pension trust contributions	(7.8)	(7.3)
Net (gain) loss on disposition of property and investments	(3.5)	0.4
Income tax benefit from the exercise of stock options	0.6	
Excess income tax benefit from share-based compensation	(12.1)	(2.1)
Changes in assets and liabilities, excluding effects of foreign currency adjustments:		
Receivables	(92.9)	(42.2)
Inventories	(6.7)	(38.2)
Accounts payable	(16.0)	13.8
Compensation and benefits	(141.6)	(4.7)
Income taxes	49.5	27.3
Other assets and liabilities	26.8	32.8
Cash provided by operating activities	12.6	119.4
Investing activities:		
Capital expenditures	(20.3)	(13.5)
Proceeds from sale of property and investments	4.1	
Cash used for investing activities	(16.2)	(13.5)
Financing activities:		
Cash dividends	(49.7)	(41.3)
Purchases of treasury stock	(43.6)	
Proceeds from the exercise of stock options	43.6	6.7
Excess income tax benefit from share-based compensation	12.1	2.1
Other financing activities	(0.1)	(0.2)

Cash used for financing activities	(37.7)	(32.7)
Effect of exchange rate changes on cash	(2.6)	(0.9)
Cash (used for) provided by continuing operations	(43.9)	72.3
Discontinued operations:		
Cash (used for) provided by discontinued operating activities	(0.2)	0.2
Cash (used for) provided by discontinued operations	(0.2)	0.2
(Decrease) increase in cash and cash equivalents	(44.1)	72.5
Cash and cash equivalents at beginning of period	813.4	643.8
Cash and cash equivalents at end of period	\$ 769.3	\$ 716.3

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 month period ended December 31, 2010 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 \$19.0 million at December 31, 2010 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 \$9.0 million at December 31, 2010 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 December 31,	
	2010	2009
Income from continuing operations	\$ 150.1	\$ 77.8
Less: Allocation to participating securities	(0.3)	(0.2)
Income from continuing operations available to common shareowners	\$ 149.8	\$ 77.6
Loss from discontinued operations	\$	\$ (1.2)
Less: Allocation to participating securities		
Loss from discontinued operations attributable to common shareowners	\$	\$ (1.2)
Net income	\$ 150.1	\$ 76.6
Less: Allocation to participating securities	(0.3)	(0.2)
Net income available to common shareowners	\$ 149.8	\$ 76.4
Basic weighted average outstanding shares	141.8	142.0
Effect of dilutive securities		
Stock options	2.3	1.5
Performance shares	0.4	0.2
Diluted weighted average outstanding shares	144.5	143.7

Basic earnings per share:

Continuing operations	\$	1.06	\$	0.55
Discontinued operations				(0.01)

Net income	\$	1.06	\$	0.54
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Diluted earnings per share:

Continuing operations	\$	1.04	\$	0.54
Discontinued operations				(0.01)

Net income	\$	1.04	\$	0.53
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For the three months ended December 31, 2010, share-based compensation awards for 3.0 million shares were excluded from the diluted EPS calculation because they were antidilutive. For the three months ended December 31, 2009, share-based compensation awards for 5.7 million shares 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)

2. Share-Based Compensation

We recognized \$9.1 million and \$8.7 million of pre-tax share-based compensation expense during the three months ended December 31, 2010 and 2009, 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):

	Three months ended December 31,		Three months ended December 31,	
	2010	Wtd. Avg. Share Fair Value	2009	Wtd. Avg. Share Fair Value
	Grants		Grants	
Stock options	1,708	\$ 21.28	2,168	\$ 13.59
Performance shares	77	87.00	146	54.81
Restricted stock and restricted stock units	46	69.19	142	43.50
Unrestricted stock	7	61.81	8	41.85

3. Inventories

Inventories consist of (in millions):

	December 31, 2010	September 30, 2010
Finished goods	\$ 248.4	\$ 244.2
Work in process	138.0	144.1
Raw materials, parts and supplies	226.2	215.0
 Inventories	 \$ 612.6	 \$ 603.3

We report inventories net of an allowance for excess and obsolete inventory of \$46.4 million at December 31, 2010 and \$46.3 million at September 30, 2010.

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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 three months ended December 31, 2010 are (in millions):

	Architecture & Software	Control Products & Solutions	Total
Balance as of September 30, 2010	\$ 385.5	\$ 527.0	\$ 912.5
Translation and other	(1.6)	(2.7)	(4.3)
Balance as of December 31, 2010	\$ 383.9	\$ 524.3	\$ 908.2

Other intangible assets consist of (in millions):

	Carrying Amount	December 31, 2010 Accumulated Amortization	Net
Amortized intangible assets:			
Computer software products	\$ 164.0	\$ 111.9	\$ 52.1
Customer relationships	58.8	17.9	40.9
Technology	83.2	39.3	43.9
Trademarks	31.7	8.7	23.0
Other	23.3	16.6	6.7
Total amortized intangible assets	361.0	194.4	166.6
Intangible assets not subject to amortization	43.7		43.7
Total	\$ 404.7	\$ 194.4	\$ 210.3

	Carrying Amount	September 30, 2010 Accumulated Amortization	Net
Amortized intangible assets:			
Computer software products	\$ 160.1	\$ 107.3	\$ 52.8
Customer relationships	59.6	16.6	43.0
Technology	83.8	38.0	45.8
Trademarks	32.5	7.6	24.9
Other	23.6	16.5	7.1
Total amortized intangible assets	359.6	186.0	173.6
Intangible assets not subject to amortization	43.7		43.7

Total	\$	403.3	\$	186.0	\$	217.3
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The Allen-Bradley® trademark has an indefinite life, and therefore is not subject to amortization.

Estimated amortization expense is \$34.1 million in 2011, \$31.8 million in 2012, \$25.6 million in 2013, \$20.7 million in 2014 and \$16.0 million in 2015.

We perform the annual evaluation of our 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 each year.

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

5. Other Current Liabilities

Other current liabilities consist of (in millions):