

ROCKWELL AUTOMATION INC  
Form 10-Q  
August 02, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended June 30, 2012  
Commission file number 1-12383

Rockwell Automation, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 25-1797617  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)

1201 South Second Street, 53204  
Milwaukee, Wisconsin (Zip Code)  
(Address of principal executive offices)

(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 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

141,148,269 shares of registrant's Common Stock, \$1.00 par value, were outstanding on June 30, 2012.

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## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## ROCKWELL AUTOMATION, INC.

## CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(in millions)

	June 30, 2012	September 30, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$805.6	\$988.9
Short-term investments	350.0	—
Receivables	1,139.1	1,063.4
Inventories	634.8	641.7
Deferred income taxes	196.3	199.6
Other current assets	135.8	181.5
Total current assets	3,261.6	3,075.1
Property, net of accumulated depreciation of \$1,191.4 and \$1,159.1, respectively	563.9	561.4
Goodwill	933.8	952.6
Other intangible assets, net	209.9	218.0
Deferred income taxes	259.0	336.2
Prepaid pension	6.1	4.3
Other assets	148.1	137.3
Total	\$5,382.4	\$5,284.9
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$270.0	\$—
Accounts payable	486.3	455.1
Compensation and benefits	168.0	319.6
Advance payments from customers and deferred revenue	226.0	189.0
Customer returns, rebates and incentives	159.3	154.0
Other current liabilities	246.8	212.2
Total current liabilities	1,556.4	1,329.9
Long-term debt	905.0	905.0
Retirement benefits	751.5	1,059.3
Other liabilities	247.0	242.7
Commitments and contingent liabilities (Note 12)		
Shareowners' equity:		
Common stock (shares issued: 181.4)	181.4	181.4
Additional paid-in capital	1,405.8	1,381.4
Retained earnings	3,665.2	3,382.8
Accumulated other comprehensive loss	(1,038.1)	) (992.9 )
	(2,291.8)	) (2,204.7 )

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Common stock in treasury, at cost (shares held: June 30, 2012, 40.2; September 30, 2011, 39.5)

Total shareowners' equity	1,922.5	1,748.0
Total	\$5,382.4	\$5,284.9

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		Nine Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Sales				
Products and solutions	\$1,414.5	\$1,370.0	\$4,154.7	\$3,935.1
Services	145.9	146.2	440.7	411.0
	1,560.4	1,516.2	4,595.4	4,346.1
Cost of sales				
Products and solutions	(823.9 )	(810.1 )	(2,416.2 )	(2,338.5 )
Services	(105.0 )	(99.3 )	(310.7 )	(280.4 )
	(928.9 )	(909.4 )	(2,726.9 )	(2,618.9 )
Gross profit	631.5	606.8	1,868.5	1,727.2
Selling, general and administrative expenses	(369.8 )	(370.0 )	(1,105.3 )	(1,073.1 )
Other (expense) income	(1.7 )	(0.9 )	(7.0 )	2.3
Interest expense	(15.2 )	(14.7 )	(45.2 )	(44.9 )
Income from continuing operations before income taxes	244.8	221.2	711.0	611.5
Income tax provision	(54.1 )	(42.4 )	(169.2 )	(116.2 )
Income from continuing operations	\$190.7	\$178.8	\$541.8	\$495.3
Income from discontinued operations	—	0.7	—	0.7
Net income	\$190.7	\$179.5	\$541.8	\$496.0
Basic earnings per share:				
Continuing operations	\$1.34	\$1.24	\$3.81	\$3.46
Discontinued operations	—	0.01	—	0.01
Net income	\$1.34	\$1.25	\$3.81	\$3.47
Diluted earnings per share:				
Continuing operations	\$1.33	\$1.22	\$3.76	\$3.40
Discontinued operations	—	0.01	—	—
Net income	\$1.33	\$1.23	\$3.76	\$3.40
Cash dividends per share	\$0.895	\$0.775	\$1.745	\$1.475
Weighted average outstanding shares:				
Basic	141.7	143.4	142.0	142.8
Diluted	143.5	145.9	144.0	145.5

See Notes to Condensed Consolidated Financial Statements.

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ROCKWELL AUTOMATION, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(in millions)

	Nine Months Ended June 30,	
	2012	2011
Continuing operations:		
Operating activities:		
Net income	\$541.8	\$496.0
Income from discontinued operations	—	(0.7 )
Income from continuing operations	541.8	495.3
Adjustments to arrive at cash provided by operating activities:		
Depreciation	76.7	70.4
Amortization of intangible assets	26.2	26.2
Share-based compensation expense	32.8	29.3
Retirement benefit expense	78.6	75.6
Pension trust contributions	(328.5 )	(23.3 )
Net loss (gain) on disposition of property and investments	0.5	(2.0 )
Income tax benefit from the exercise of stock options	0.7	3.1
Excess income tax benefit from share-based compensation	(17.3 )	(37.8 )
Changes in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments:		
Receivables	(114.1 )	(153.3 )
Inventories	(9.3 )	(68.5 )
Accounts payable	44.7	37.0
Advance payments from customers and deferred revenue	42.6	10.5
Compensation and benefits	(128.7 )	(73.7 )
Income taxes	79.6	67.5
Other assets and liabilities	2.3	6.2
Cash provided by operating activities	328.6	462.5
Investing activities:		
Capital expenditures	(94.9 )	(76.0 )
Acquisition of businesses, net of cash acquired	(16.2 )	(45.9 )
Purchases of short-term investments	(400.0 )	—
Proceeds from maturities of short-term investments	50.0	—
Proceeds from sale of property and investments	2.4	4.3
Cash used for investing activities	(458.7 )	(117.6 )
Financing activities:		
Net issuance of short-term debt	270.0	—
Cash dividends	(181.5 )	(150.3 )
Purchases of treasury stock	(168.3 )	(222.7 )
Proceeds from the exercise of stock options	44.4	170.8
Excess income tax benefit from share-based compensation	17.3	37.8
Other financing activities	(0.3 )	(0.3 )

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Cash used for financing activities	(18.4 )	(164.7 )
Effect of exchange rate changes on cash	(34.1 )	31.6
Cash (used for) provided by continuing operations	(182.6 )	211.8
Discontinued operations:		
Cash used for discontinued operating activities	(0.7 )	(3.4 )
Cash used for discontinued operations	(0.7 )	(3.4 )
(Decrease) increase in cash and cash equivalents	(183.3 )	208.4
Cash and cash equivalents at beginning of period	988.9	813.4
Cash and cash equivalents at end of period	\$805.6	\$1,021.8
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, 2011. The results of operations for the three and nine month periods ended June 30, 2012 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.

Revenue Recognition

Product and solution sales consist of industrial automation power, control and information hardware and software products and custom-engineered systems. Service sales include multi-vendor customer technical support and repair, asset management and optimization consulting and training. All service revenue recorded in our results of operations is included in our Control Product & Solutions segment.

For approximately 85 percent of our consolidated sales, we record sales when all of the following have occurred: an agreement of sale exists; pricing is fixed or determinable; collection is reasonably assured; and product has been delivered and acceptance has occurred, as may be required according to contract terms, or services have been rendered. Within this category, we will at times enter into arrangements that involve the delivery of multiple products and/or the performance of services, such as installation and commissioning. The timing of delivery, though varied based upon the nature of the undelivered component, is generally short-term in nature. For these arrangements, revenue is allocated to each deliverable based on that element's relative selling price, provided the delivered element has value to customers on a standalone basis and, if the arrangement includes a general right of return, delivery or performance of the undelivered items is probable and substantially in our control. Relative selling price is obtained from sources such as vendor-specific objective evidence ("VSOE"), which is based on the separate selling price for that or a similar item, or from third-party evidence such as how competitors have priced similar items. If such evidence is not available, we use our best estimate of the selling price, which includes various internal factors such as our pricing strategy and market factors.

We recognize substantially all of the remainder of our sales as construction-type contracts using either the percentage-of-completion or completed contract method of accounting. We record sales relating to these contracts using the percentage-of-completion method when we determine that progress toward completion is reasonably and reliably estimable; we use the completed contract method for all others. Under the percentage-of-completion method, we recognize sales and gross profit as work is performed using the relationship between actual costs incurred and total estimated costs at completion. Under the percentage-of-completion method, we adjust sales and gross profit for revisions of estimated total contract costs or revenue in the period the change is identified. We record estimated losses on contracts when they are identified.

We use contracts and customer purchase orders to determine the existence of an agreement of sale. We use shipping documents and customer acceptance, when applicable, to verify delivery. We assess whether the selling price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess collectibility based on the creditworthiness of the customer as determined by credit evaluations and analysis, as well as the customer's payment history.



Shipping and handling costs billed to customers are included in sales and the related costs are included in cost of sales in the Condensed Consolidated Statement of Operations.

Receivables

Receivables are stated net of allowances for doubtful accounts of \$27.2 million at June 30, 2012 and \$26.1 million at September 30, 2011. In addition, receivables are stated net of an allowance for certain customer returns, rebates and incentives of \$8.1 million at June 30, 2012 and \$8.0 million at September 30, 2011.

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ROCKWELL AUTOMATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

## Short-term Investments

Short-term investments include time deposits and certificates of deposit with original maturities of more than three months but no more than one year at the time of purchase. These investments are stated at cost, which approximates fair value.

## Earnings Per Share

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Income from continuing operations	\$190.7	\$178.8	\$541.8	\$495.3
Less: Allocation to participating securities	(0.3 )	(0.3 )	(1.0 )	(1.0 )
Income from continuing operations available to common shareowners	\$190.4	\$178.5	\$540.8	\$494.3
Income from discontinued operations	\$—	\$0.7	\$—	\$0.7
Less: Allocation to participating securities	—	—	—	—
Income from discontinued operations available to common shareowners	\$—	\$0.7	\$—	\$0.7
Net income	\$190.7	\$179.5	\$541.8	\$496.0
Less: Allocation to participating securities	(0.3 )	(0.3 )	(1.0 )	(1.0 )
Net income available to common shareowners	\$190.4	\$179.2	\$540.8	\$495.0
Basic weighted average outstanding shares	141.7	143.4	142.0	142.8
Effect of dilutive securities				
Stock options	1.6	2.1	1.7	2.3
Performance shares	0.2	0.4	0.3	0.4
Diluted weighted average outstanding shares	143.5	145.9	144.0	145.5
Basic earnings per share:				
Continuing operations	\$1.34	\$1.24	\$3.81	\$3.46
Discontinued operations	—	0.01	—	0.01
Net income	\$1.34	\$1.25	\$3.81	\$3.47
Diluted earnings per share:				
Continuing operations	\$1.33	\$1.22	\$3.76	\$3.40
Discontinued operations	—	0.01	—	—
Net income	\$1.33	\$1.23	\$3.76	\$3.40

For the three and nine months ended June 30, 2012, share-based compensation awards for 2.3 million and 2.1 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive. For the three and nine months ended June 30, 2011, share-based compensation awards for 1.1 million and 1.9 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive.



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ROCKWELL AUTOMATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

## 2. Share-Based Compensation

We recognized \$10.5 million and \$32.8 million of pre-tax share-based compensation expense during the three and nine months ended June 30, 2012, respectively. We recognized \$10.1 million and \$29.3 million of pre-tax share-based compensation expense during the three and nine months ended June 30, 2011, respectively.

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):

	Nine Months Ended June 30,		2011	
	2012	Wtd. Avg. Share Fair Value	Grants	Wtd. Avg. Share Fair Value
Stock options	1,383	\$23.51	1,727	\$21.39
Performance shares	93	101.57	77	87.00
Restricted stock and restricted stock units	84	73.73	68	74.52
Unrestricted stock	12	61.97	11	69.79

## 3. Acquisitions

In March 2012, we acquired certain assets and assumed certain liabilities of SoftSwitching Technologies Corporation (SoftSwitching), an industrial power quality detection and protection systems provider in the United States. We recorded no goodwill associated with this acquisition.

In April 2011, we acquired certain assets and assumed certain liabilities of Hiprom (Pty) Ltd and its affiliates (Hiprom), a process control and automation systems integrator for the mining and mineral processing industry in South Africa. In May 2011, we purchased a majority stake in the equity of Lektronix Limited and its affiliate (Lektronix), an independent industrial automation repairs and service provider in Europe and Asia. We purchased the remaining minority shares for \$10.9 million in December 2011. The aggregate purchase price of the Hiprom and Lektronix acquisitions was \$58.8 million.

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

The fair values and weighted average useful lives that have been assigned to the acquired identifiable intangible assets of these acquisitions are (in millions, except useful lives):

	2012		2011	
	Fair Value	Wtd. Avg. Useful Life	Fair Value	Wtd. Avg. Useful Life
Customer relationships	\$—	—	\$14.3	14 years
Technology	3.2	10 years	1.5	10 years
Trademarks	—	—	1.3	2 years
Other intangible assets	—	—	0.6	4 years

The results of operations of the acquired businesses have been included in our Condensed Consolidated Statement of Operations since the dates of acquisition. Pro forma financial information and allocation of the purchase price are not presented as the effects of these acquisitions are not material to our results of operations or financial position.



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ROCKWELL AUTOMATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

## 4. Inventories

Inventories consist of (in millions):

	June 30, 2012	September 30, 2011
Finished goods	\$263.0	\$265.0
Work in process	155.9	139.4
Raw materials, parts and supplies	215.9	237.3
Inventories	\$634.8	\$641.7

We report inventories net of the allowance for excess and obsolete inventory of \$51.6 million at June 30, 2012 and \$46.3 million at September 30, 2011.

## 5. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended June 30, 2012 are (in millions):

	Architecture & Software	Control Products & Solutions	Total
Balance as of September 30, 2011	\$		