ROCKWELL AUTOMATION INC
Form 10-Q
August 04, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2009
Commission file number 1-12383
Rockwell Automation, Inc.
(Exact name of registrant as specified in its charter)

Delaware	25-1797617
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1201 South Second Street, Milwaukee, Wisconsin	53204
(Address of principal executive offices)	(Zip Code)

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

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

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 þ No o

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 þ Accelerated Filer o Non-accelerated Filer o Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

141,956,745 shares of registrant s Common Stock, $1.00 par value, were outstanding on June 30, 2009.

ROCKWELL AUTOMATION, INC.
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EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

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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, 2009	September 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 580.5	$ 582.2
Receivables	740.7	959.9
Inventories	460.3	575.5
Deferred income taxes	177.6	190.0
Other current assets	147.1	129.0
Total current assets	2,106.2	2,436.6
Property, net	525.8	553.8
Goodwill	905.6	915.0
Other intangible assets, net	231.6	250.8
Deferred income taxes	110.5	120.1
Prepaid pension	145.1	138.4
Other assets	139.2	178.9
TOTAL	$ 4,164.0	$ 4,593.6
LIABILITIES AND SHAREOWNERS EQUITY		
Current liabilities:		
Short-term debt	$	$ 100.1
Accounts payable	287.6	437.3
Compensation and benefits	146.5	210.0
Income taxes payable	20.2	39.4
Other current liabilities	502.1	516.3
Total current liabilities	956.4	1,303.1
Long-term debt	904.8	904.4
Retirement benefits	389.1	386.8
Other liabilities	306.2	310.5
Commitments and contingent liabilities (Note 13)		

Shareowners equity:		
Common stock (shares issued: 216.4)	216.4	216.4
Additional paid-in capital	1,296.7	1,280.9
Retained earnings	4,498.1	4,486.1
Accumulated other comprehensive loss	(403.5)	(319.0)
Common stock in treasury, at cost (shares held: June 30, 2009, 74.4; September 30, 2008, 73.2)	(4,000.2)	(3,975.6)
Total shareowners equity	1,607.5	1,688.8
TOTAL	$ 4,164.0	$ 4,593.6

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Sales				
Products and solutions	$ 906.0	$ 1,335.7	$ 2,925.4	$ 3,817.3
Services	104.8	139.3	332.7	396.2
	1,010.8	1,475.0	3,258.1	4,213.5
Cost of sales				
Products and solutions	(570.7)	(771.3)	(1,819.6)	(2,188.0)
Services	(69.9)	(98.1)	(234.3)	(273.1)
	(640.6)	(869.4)	(2,053.9)	(2,461.1)
Gross profit	370.2	605.6	1,204.2	1,752.4
Selling, general and administrative expenses	(305.0)	(377.6)	(911.2)	(1,084.5)
Other income (expense)	0.4	2.1	(2.2)	16.4
Interest expense	(15.4)	(16.6)	(45.7)	(52.1)
Income from continuing operations before income taxes	50.2	213.5	245.1	632.2
Income tax provision	(17.4)	(60.9)	(56.1)	(180.2)
Income from continuing operations	32.8	152.6	189.0	452.0
Income from discontinued operations, net of tax			2.8	
Net income	$ 32.8	$ 152.6	$ 191.8	$ 452.0
Basic earnings per share:				
Continuing operations	$ 0.23	$ 1.04	$ 1.33	$ 3.07
Discontinued operations			0.02	
Net income	$ 0.23	$ 1.04	$ 1.35	$ 3.07

Diluted earnings per share:								
Continuing operations	$	0.23	$	1.03	$	1.33	$	3.03
Discontinued operations						0.02		
Net income	$	0.23	$	1.03	$	1.35	$	3.03
Cash dividends per share	$	0.58	$	0.58	$	1.16	$	1.16
Weighted average outstanding shares:								
Basic		141.7		146.3		141.6		147.3
Diluted		142.4		148.1		142.2		149.3

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, 2009	Nine Months Ended June 30, 2008
Continuing Operations:		
Operating Activities:		
Net income	$ 191.8	$ 452.0
Income from discontinued operations	(2.8)	
Income from continuing operations	189.0	452.0
Adjustments to arrive at cash provided by operating activities:		
Depreciation	74.4	74.1
Amortization of intangible assets	24.4	26.8
Share-based compensation expense	20.0	24.6
Retirement benefits expense	36.4	33.5
Pension trust contributions	(22.7)	(31.6)
Net loss (gain) on disposition of securities and property	1.5	(5.8)
Income tax benefit from the exercise of stock options		0.2
Excess income tax benefit from share-based compensation	(1.3)	(3.9)
Changes in assets and liabilities, excluding effects of foreign currency adjustments:		
Receivables	196.5	(21.7)
Inventories	99.7	(86.3)
Accounts payable	(123.8)	(42.0)
Compensation and benefits	(56.8)	(2.0)
Income taxes	(5.8)	(30.4)
Other assets and liabilities	(22.9)	(35.2)
Cash Provided by Operating Activities	408.6	352.3
Investing Activities:		
Capital expenditures	(67.5)	(102.8)
Acquisition of businesses, net of cash acquired	(30.1)	(112.4)
Proceeds from sales of available for sale securities		36.3
Proceeds from sale of property	3.0	6.9
Purchase of short-term investments	(8.4)	
Other investing activities	(4.1)	(2.9)
Cash Used for Investing Activities	(107.1)	(174.9)
Financing Activities:		
Net (repayments) issuance of short-term debt	(100.0)	160.9

Issuance of long-term debt		493.5
Repayments of long-term debt		(351.3)
Cash dividends	(123.3)	(128.4)
Purchases of treasury stock	(53.5)	(226.9)
Proceeds from the exercise of stock options	7.4	12.2
Excess income tax benefit from share-based compensation	1.3	3.9
Other financing activities	(3.0)	(0.3)
Cash Used for Financing Activities	(271.1)	(36.4)
Effect of exchange rate changes on cash	(31.6)	46.8
Cash (Used for) Provided by Continuing Operations	(1.2)	187.8
Discontinued Operations:		
Cash Used for Discontinued Operating Activities	(0.5)	(6.1)
Cash Used for Discontinued Operations	(0.5)	(6.1)
(Decrease) Increase in Cash and Cash Equivalents	(1.7)	181.7
Cash and Cash Equivalents at Beginning of Period	582.2	624.2
Cash and Cash Equivalents at End of Period	$ 580.5	$ 805.9

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, consisting solely of adjustments of a normal recurring nature, necessary to present fairly the financial position, results of operations, and cash flows for the periods presented. These statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 30, 2008. The results of operations for the three- and nine-month periods ended June 30, 2009 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. We have evaluated subsequent events through the date and time of issuance of these financial statements on August 4, 2009.

Revenue

Product and solution revenues consist of industrial automation power, control, information and custom-engineered hardware and software products and systems. Service revenues include multi-vendor customer technical support and repair, asset management and optimization consulting and training.

Cash and Cash Equivalents

Cash and cash equivalents include time deposits and certificates of deposit with original maturities of three months or less at the time of purchase.

Receivables

Receivables are stated net of allowances for doubtful accounts of $18.5 million at June 30, 2009 and $17.4 million at September 30, 2008. In addition, receivables are stated net of an allowance for certain customer returns, rebates and incentives of $11.0 million at June 30, 2009 and $13.2 million at September 30, 2008.

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 pretax 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 or extraordinary items and items that are reported net of their related tax effects. We record the tax effect of significant unusual or extraordinary items and items that are reported net of their tax effects in the period in which they occur. See Note 14 for further details regarding income taxes.

We account for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). We determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. For tax positions that meet the more-likely-than-not recognition threshold, we determine the amount of benefit to recognize in the financial statements.

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

1. Basis of Presentation and Accounting Policies (Continued)

Earnings Per Share

We present basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the applicable period. Diluted EPS amounts are based upon the weighted average number of common and common equivalent shares outstanding during the applicable period. The difference between basic and diluted EPS is attributable to share-based compensation awards. We use the treasury stock method to calculate the effect of outstanding share-based compensation awards, which requires us to compute total employee proceeds as the sum of (a) the amount the employee must pay upon exercise of the award, (b) the amount of unearned share-based compensation costs attributed to future services and (c) the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of the award. Share-based compensation awards for which the total employee proceeds exceed the average market price over the applicable period have an antidilutive effect on EPS, and accordingly, we exclude them from the calculation of diluted EPS. For the three and nine months ended June 30, 2009, share-based compensation awards of 7.8 million and 8.3 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive. For the three and nine months ended June 30, 2008, share-based compensation awards of 2.8 million and 2.5 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive.

The following table reconciles basic weighted average outstanding shares to diluted weighted average outstanding shares (in millions):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Weighted average outstanding shares				
Basic weighted average outstanding shares	141.7	146.3	141.6	147.3
Effect of dilutive securities				
Stock options	0.6	1.7	0.5	1.9
Restricted stock	0.1	0.1	0.1	0.1
Diluted weighted average outstanding shares	142.4	148.1	142.2	149.3

Recent Accounting Pronouncements

In April 2009, the FASB issued FASB Staff Position (FSP) No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1). FSP FAS 107-1 requires disclosures about the fair value of financial instruments in interim reporting periods, which had been required to be disclosed annually in the past. We adopted FSP FAS 107-1 in the third quarter of 2009. See Note 10 for the expanded disclosures presented in accordance with the requirements of FSP FAS 107-1.

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

1. Basis of Presentation and Accounting Policies (Continued)

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1). FSP FAS 132(R)-1 expands disclosures about plan assets of a defined benefit pension or other postretirement plan. The expanded disclosures include how investment allocation decisions are made, major categories of plan assets, inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets, and significant concentrations of risk within plan assets. FSP FAS 132(R)-1 will become effective for us at the end of fiscal 2010. We do not believe FSP FAS 132(R)-1 will have a material effect on our financial statements; we will expand our relevant disclosures upon adoption.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 specifies that unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for us in fiscal 2010, and may result in a reduction in earnings per share of $0.01 in certain periods.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets,* and the period of expected cash flows used to measure the fair value of the asset under SFAS 141 (Revised 2007), *Business Combinations* (SFAS 141(R)), and other accounting principles generally accepted in the United States. FSP FAS 142-3 will become effective for us in fiscal 2010. We do not believe FSP FAS 142-3 will have a material effect on our financial statements and related disclosures.

On January 1, 2009, we adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 amends and expands the disclosures required by SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), so that they provide an enhanced understanding of how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments affect an entity s financial position, financial performance and cash flows; see Note 10 for the expanded disclosures presented in accordance with the requirements of SFAS 161.

In March 2008, the FASB ratified EITF Issue No. 08-3, *Accounting by Lessees for Maintenance Deposits Under Lease Arrangements* (EITF 08-3). EITF 08-3 requires that all nonrefundable maintenance deposits be accounted for as a deposit, and expensed or capitalized when underlying maintenance is performed. If it is determined that an amount on deposit is not probable of being used to fund future maintenance, it is to be recognized as expense at the time such determination is made. EITF 08-3 will become effective for us in fiscal 2010. We do not believe EITF 08-3 will have a material effect on our financial statements and related disclosures.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51* (SFAS 160). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that does not result in deconsolidation. SFAS 160 will become effective for us in fiscal 2010. We do not believe SFAS 160 will have a material effect on our financial statements and related disclosures.

On October 1, 2008, we adopted EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11). EITF 06-11 specifies how companies should recognize the income tax benefit received on dividends that are (a) paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options and (b) charged to retained earnings under SFAS 123(R), *Share-Based Payment*. EITF 06-11 did not have a material effect on our financial statements or related disclosures.

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

1. Basis of Presentation and Accounting Policies (Continued)

On October 1, 2008, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value. We did not elect to measure any items under the fair value option allowed by SFAS 159 that were not already required to be measured at fair value. As such, the implementation of this standard did not have any impact on our financial statements and related disclosures.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. We adopted SFAS 157 for financial assets and liabilities effective October 1, 2008. SFAS 157 will become effective for our non-financial assets and liabilities in fiscal 2010. The adoption of SFAS 157 did not have a material effect on our financial statements for financial assets and liabilities; see Note 10 for the expanded disclosures presented in accordance with the requirements of SFAS 157. We do not believe the adoption of SFAS 157 for non-financial assets and liabilities will have a material effect on our financial statements.

SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158), became effective for us as of September 30, 2007. SFAS 158 requires us to recognize an asset or liability in our consolidated balance sheet reflecting the funded status of our pension and other postretirement benefit plans, with current-year changes in the funded status recognized in shareowners equity. SFAS 158 did not change the existing criteria for measurement of periodic benefit costs, plan assets or benefit obligations. Additionally, SFAS 158 will require us to measure the funded status on the date of our annual audited Consolidated Balance Sheet as of September 30, 2009. In doing so, we will record a reduction in retained earnings of approximately $12.4 million related to the change in our measurement date.

2. Share-Based Compensation

We recognized $7.7 million and $20.0 million in share-based compensation expense in income from continuing operations before income taxes during the three- and nine-months ended June 30, 2009, respectively. We recognized $8.7 million and $24.6 million in share-based compensation expense in income from continuing operations before income taxes during the three- and nine- months ended June 30, 2008, 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 was (in thousands except per share amounts):

	Nine Months Ended June 30,			
	2009		2008	
	Grants	Wtd. Avg. Share Fair Value	Grants	Wtd. Avg. Share Fair Value
Stock options	2,802	$ 7.75	1,578	$ 17.58
Performance shares	192	31.82	121	70.32
Restricted stock and restricted stock units	92	29.38	71	66.67

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

3. Acquisitions

In January 2009, we acquired the assets and assumed certain liabilities of Xi an Hengsheng Science & Technology Company Limited (Hengsheng). Hengsheng delivers automation solutions to the electrical power and other heavy process industries in central and western China. In March 2009, we acquired a majority of the assets and assumed certain liabilities of the automation business of Rutter Hinz Inc. (Hinz). Hinz offers industrial control systems engineering and related support, with domain expertise in industrial automation, process control and power distribution, specifically for the oil and gas industry, as well as other resource-based industries. We recorded goodwill of $16.2 million, customer relationships of $2.8 million and other intangible assets of $2.9 million resulting from the preliminary purchase price allocations of Hengsheng and Hinz. We expect $5.6 million of the goodwill to be deductible for tax purposes.

In November 2007, our Architecture & Software segment acquired Pavilion Technologies, Inc. (Pavilion), a privately held company that engages in advanced process control, production optimization and environmental compliance solutions for process and hybrid industries. In May 2008, our Architecture & Software segment acquired CEDES Safety & Automation AG (CEDES) and Incuity Software, Inc. (Incuity). Swiss-based CEDES is a supplier of safety and measuring light curtains, as well as other safety and non-safety optoelectronics, control units and related accessories for industrial applications. Incuity is a supplier of Enterprise Manufacturing Intelligence (EMI) software, which provides real-time intelligence for business decision support to improve operations and reduce production waste by providing valuable management insight into a company s operations.

We recorded intangible assets of $43.1 million and goodwill of $69.3 million resulting from the final purchase price allocations of the Pavilion, CEDES and Incuity acquisitions. Intangible assets assigned include $34.0 million to technology (15-year weighted average useful life), $6.6 million to customer relationships (9-year weighted average useful life) and $2.5 million to other intangible assets (4-year weighted average useful life). None of the goodwill recorded is expected to be deductible for tax purposes.

We assigned the full amount of goodwill for Hengsheng and Hinz to our Control Products & Solutions segment and the full amount of goodwill for Pavilion, CEDES and Incuity to our Architecture & Software segment. 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 individual effects of these acquisitions are not material to our results of operations and financial position.