

ROCKWELL AUTOMATION INC

Form 10-Q

February 06, 2008

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

December 31, 2007

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, 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 ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-accelerated Filer ☒

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

148,361,042 shares of registrant's Common Stock, \$1.00 par value, were outstanding on December 31, 2007.

**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

INDEX

|                                                                                                      | <b>Page<br/>No.</b> |
|------------------------------------------------------------------------------------------------------|---------------------|
| <b><u>PART I.</u></b>                                                                                |                     |
| FINANCIAL INFORMATION                                                                                |                     |
| Item 1. Condensed Consolidated Financial Statements:                                                 |                     |
| <u>Condensed Consolidated Balance Sheet December 31, 2007 and September 30, 2007</u>                 | 2                   |
| <u>Condensed Consolidated Statement of Operations Three Months Ended December 31, 2007 and 2006</u>  | 3                   |
| <u>Condensed Consolidated Statement of Cash Flows Three Months Ended December 31, 2007 and 2006</u>  | 4                   |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                          | 5                   |
| <u>Report of Independent Registered Public Accounting Firm</u>                                       | 19                  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 20                  |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 31                  |
| Item 4. <u>Controls and Procedures</u>                                                               | 31                  |
| <b><u>PART II.</u></b>                                                                               |                     |
| <b><u>OTHER INFORMATION</u></b>                                                                      |                     |
| Item 1. <u>Legal Proceedings</u>                                                                     | 31                  |
| Item 1A. <u>Risk Factors</u>                                                                         | 33                  |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 34                  |
| Item 6. <u>Exhibits</u>                                                                              | 35                  |
| <u>Signatures</u>                                                                                    | 37                  |

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1.      *Condensed Consolidated Financial Statements*****ROCKWELL AUTOMATION, INC.****CONDENSED CONSOLIDATED BALANCE SHEET****(Unaudited)****(in millions)**

|                              | <b>December 31,<br/>2007</b> | <b>September 30,<br/>2007</b> |
|------------------------------|------------------------------|-------------------------------|
| <b><u>ASSETS</u></b>         |                              |                               |
| Current assets:              |                              |                               |
| Cash and cash equivalents    | \$ 867.0                     | \$ 624.2                      |
| Receivables                  | 937.5                        | 927.7                         |
| Inventories                  | 554.6                        | 504.7                         |
| Deferred income taxes        | 176.3                        | 170.2                         |
| Other current assets         | 131.7                        | 155.2                         |
| Total current assets         | 2,667.1                      | 2,382.0                       |
| Property, net                | 510.2                        | 510.3                         |
| Goodwill                     | 895.1                        | 858.5                         |
| Other intangible assets, net | 261.1                        | 243.4                         |
| Deferred income taxes        | 38.2                         | 25.3                          |
| Prepaid pension              | 392.3                        | 384.3                         |
| Other assets                 | 177.0                        | 142.0                         |
| TOTAL                        | \$ 4,941.0                   | \$ 4,545.8                    |

**LIABILITIES AND SHAREOWNERS' EQUITY**

|                                                  |         |          |
|--------------------------------------------------|---------|----------|
| Current liabilities:                             |         |          |
| Short-term debt                                  | \$ 0.1  | \$ 173.2 |
| Current portion of long-term debt                | 349.8   | 348.2    |
| Accounts payable                                 | 455.6   | 498.5    |
| Compensation and benefits                        | 162.1   | 198.4    |
| Income taxes payable                             | 98.6    | 79.8     |
| Other current liabilities                        | 475.3   | 446.4    |
| Total current liabilities                        | 1,541.5 | 1,744.5  |
| Long-term debt                                   | 903.9   | 405.7    |
| Retirement benefits                              | 408.2   | 401.4    |
| Other liabilities                                | 303.6   | 251.4    |
| Commitments and contingent liabilities (Note 12) |         |          |
| Shareowners' equity:                             |         |          |
| Common stock (shares issued: 216.4)              | 216.4   | 216.4    |
| Additional paid-in capital                       | 1,253.1 | 1,247.5  |

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|                                                                                                       |            |            |
|-------------------------------------------------------------------------------------------------------|------------|------------|
| Retained earnings                                                                                     | 4,197.9    | 4,098.1    |
| Accumulated other comprehensive loss                                                                  | (158.4)    | (169.7)    |
| Common stock in treasury, at cost (shares held:<br>December 31, 2007, 68.0; September 30, 2007, 67.0) | (3,725.2)  | (3,649.5)  |
| Total shareowners equity                                                                              | 1,783.8    | 1,742.8    |
| TOTAL                                                                                                 | \$ 4,941.0 | \$ 4,545.8 |

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)**

|                                                       | <b>Three Months Ended<br/>December 31,</b> |                 |
|-------------------------------------------------------|--------------------------------------------|-----------------|
|                                                       | <b>2007</b>                                | <b>2006</b>     |
| Sales                                                 |                                            |                 |
| Products and solutions                                | \$ 1,207.2                                 | \$ 1,036.3      |
| Services                                              | 124.7                                      | 110.0           |
|                                                       | 1,331.9                                    | 1,146.3         |
| Cost of Sales                                         |                                            |                 |
| Products and solutions                                | (671.8)                                    | (571.7)         |
| Services                                              | (84.6)                                     | (77.0)          |
|                                                       | (756.4)                                    | (648.7)         |
| Gross profit                                          | 575.5                                      | 497.6           |
| Selling, general and administrative expenses          | (348.6)                                    | (293.1)         |
| Other income                                          | 10.1                                       | 0.8             |
| Interest expense                                      | (18.0)                                     | (18.4)          |
| Income from continuing operations before income taxes | 219.0                                      | 186.9           |
| Income tax provision                                  | (62.4)                                     | (56.0)          |
| <b>Income from continuing operations</b>              | <b>156.6</b>                               | <b>130.9</b>    |
| <b>Income from discontinued operations</b>            |                                            |                 |
| Income from discontinued operating activities         |                                            | 34.2            |
| Income tax benefit on divestiture (Note 14)           |                                            | 264.0           |
| Income from discontinued operations                   |                                            | 298.2           |
| <b>Net income</b>                                     | <b>\$ 156.6</b>                            | <b>\$ 429.1</b> |
| <b>Basic earnings per share:</b>                      |                                            |                 |
| Continuing operations                                 | \$ 1.05                                    | \$ 0.78         |
| Discontinued operations                               |                                            | 1.77            |
| Net income                                            | \$ 1.05                                    | \$ 2.55         |
| <b>Diluted earnings per share:</b>                    |                                            |                 |
| Continuing operations                                 | \$ 1.04                                    | \$ 0.76         |
| Discontinued operations                               |                                            | 1.74            |

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|                                             |         |         |
|---------------------------------------------|---------|---------|
| Net income                                  | \$ 1.04 | \$ 2.50 |
| <b>Cash dividends per share</b>             | \$ 0.29 | \$ 0.29 |
| <b>Weighted average outstanding shares:</b> |         |         |
| Basic                                       | 148.7   | 168.6   |
| Diluted                                     | 151.0   | 171.4   |

See Notes to Condensed Consolidated Financial Statements.

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

|                                                                                       | <b>Three Months Ended<br/>December 31,</b> |               |
|---------------------------------------------------------------------------------------|--------------------------------------------|---------------|
|                                                                                       | <b>2007</b>                                | <b>2006</b>   |
| <b>Continuing Operations:</b>                                                         |                                            |               |
| <b>Operating Activities:</b>                                                          |                                            |               |
| Net income                                                                            | \$ 156.6                                   | \$ 429.1      |
| Income from discontinued operations                                                   |                                            | 298.2         |
| Income from continuing operations                                                     | 156.6                                      | 130.9         |
| Adjustments to arrive at cash provided by operating activities:                       |                                            |               |
| Depreciation                                                                          | 23.1                                       | 23.3          |
| Amortization of intangible assets                                                     | 8.2                                        | 5.2           |
| Share-based compensation expense                                                      | 6.8                                        | 7.0           |
| Retirement benefits expense                                                           | 11.3                                       | 11.2          |
| Pension trust contributions                                                           | (9.3)                                      | (14.0)        |
| Net gain on disposition of securities and property                                    | (6.1)                                      | (0.2)         |
| Income tax benefit from the exercise of stock options                                 | 0.2                                        | 0.3           |
| Excess income tax benefit from the exercise of stock options                          | (2.9)                                      | (4.7)         |
| Changes in assets and liabilities, excluding effects of foreign currency adjustments: |                                            |               |
| Receivables                                                                           | 1.0                                        | (35.7)        |
| Inventories                                                                           | (48.1)                                     | (37.3)        |
| Accounts payable                                                                      | (43.4)                                     | (14.6)        |
| Compensation and benefits                                                             | (37.2)                                     | (37.6)        |
| Income taxes                                                                          | 24.5                                       | 54.8          |
| Other assets and liabilities                                                          | 16.8                                       | 9.6           |
| <b>Cash Provided by Operating Activities</b>                                          | <b>101.5</b>                               | <b>98.2</b>   |
| <b>Investing Activities:</b>                                                          |                                            |               |
| Capital expenditures                                                                  | (26.3)                                     | (29.2)        |
| Acquisition of business, net of cash acquired                                         | (61.6)                                     |               |
| Proceeds from sale of securities and property                                         | 36.3                                       | 2.1           |
| <b>Cash Used for Investing Activities</b>                                             | <b>(51.6)</b>                              | <b>(27.1)</b> |
| <b>Financing Activities:</b>                                                          |                                            |               |
| Net (repayments) issuance of short-term debt                                          | (173.0)                                    | 314.2         |
| Issuance of long-term debt, net of financing costs                                    | 494.3                                      |               |
| Repayments of long-term debt                                                          | (1.3)                                      |               |
| Cash dividends                                                                        | (43.3)                                     | (49.2)        |
| Purchases of treasury stock                                                           | (97.5)                                     | (350.7)       |
| Proceeds from the exercise of stock options                                           | 9.6                                        | 11.9          |
| Excess income tax benefit from the exercise of stock options                          | 2.9                                        | 4.7           |
| Other financing activities                                                            | (0.1)                                      | (0.2)         |



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|                                                               |          |          |
|---------------------------------------------------------------|----------|----------|
| <b>Cash Provided by (Used for) Financing Activities</b>       | 191.6    | (69.3)   |
| Effect of exchange rate changes on cash                       | 6.9      | 5.9      |
| <b>Cash Provided by Continuing Operations</b>                 | 248.4    | 7.7      |
| <b>Discontinued Operations:</b>                               |          |          |
| Cash (Used for) Provided by Discontinued Operating Activities | (5.6)    | 22.5     |
| Cash Used for Discontinued Investing Activities               |          | (4.0)    |
| Cash Used for Discontinued Financing Activities               |          | (0.8)    |
| <b>Cash (Used for) Provided by Discontinued Operations</b>    | (5.6)    | 17.7     |
| <b>Increase in Cash and Cash Equivalents</b>                  | 242.8    | 25.4     |
| <b>Cash and Cash Equivalents at Beginning of Period</b>       | 624.2    | 408.1    |
| <b>Cash and Cash Equivalents at End of Period</b>             | \$ 867.0 | \$ 433.5 |

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, 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, 2007. The results of operations for the three-month period ended December 31, 2007 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*

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 \$14.1 million at December 31, 2007 and \$12.4 million at September 30, 2007. In addition, receivables are stated net of an allowance for certain customer returns, rebates and incentives of \$9.1 million at December 31, 2007 and \$8.1 million at September 30, 2007.

*Income Taxes*

At the end of each interim reporting period, we estimate a base effective tax rate, which is the 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 or items that are reported net of their related tax effects. We recognize the tax effect of significant unusual or extraordinary items or items that are reported net of their tax effects in the period in which they are realizable. The Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which became effective for us on October 1, 2007. See Note 14 for further details regarding income taxes.

*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 months ended December 31, 2007, share-based compensation awards for 2.3 million shares were excluded from the diluted EPS calculation because they were antidilutive. For the three months ended December 31, 2006, share-based compensation awards for

2.1 million shares were excluded from the diluted EPS calculation because they were antidilutive.

**Table of Contents****ROCKWELL AUTOMATION, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Basis of Presentation and Accounting Policies (Continued)**

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

|                                             | <b>Three Months Ended<br/>December 31,</b> |             |
|---------------------------------------------|--------------------------------------------|-------------|
|                                             | <b>2007</b>                                | <b>2006</b> |
| Weighted average outstanding shares         |                                            |             |
| Basic weighted average outstanding shares   | 148.7                                      | 168.6       |
| Effect of dilutive securities               |                                            |             |
| Stock options                               | 2.2                                        | 2.7         |
| Restricted stock                            | 0.1                                        | 0.1         |
| Diluted weighted average outstanding shares | 151.0                                      | 171.4       |

*Non-Cash Financing Activities*

During the quarter ended December 31, 2007, we repurchased 86,000 shares of our common stock for \$6.0 million that did not settle until January 2008. In September 2007, we repurchased 106,893 shares of our common stock for \$7.5 million that did not settle until October 2007. These outstanding purchases were recorded in accounts payable at December 31, 2007 and September 30, 2007.

In December 2007, we issued an aggregate of \$500 million principal amount of our 5.65% notes due 2017 and 6.25% debentures due 2037 at a discount of \$1.9 million and we incurred \$3.8 million of debt issuance costs. These amounts are recorded in long-term debt and other assets, respectively, in our Condensed Consolidated Balance Sheet and will be amortized over the respective lives of the issuances.

*Recent Accounting Pronouncements*

Statement of Financial Accounting Standard (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 required 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 measuring periodic benefit costs, plan assets or benefit obligations. Additionally, SFAS 158 will require us to measure the funded status as of the date of our annual audited Consolidated Balance Sheet by September 30, 2009.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS 141R also requires the acquirer to recognize and measure the goodwill acquired in a business combination or a gain from a bargain purchase and prescribes how to evaluate the nature and financial effects of the business combination. It also provides guidance for the accounting of pre-acquisition gain and loss contingencies and acquisition-related transaction costs. SFAS 141R is effective for us beginning in 2010. We are evaluating the statement to determine the 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 is effective for us in 2010. We are evaluating the statement to determine the effect on our financial statements and related disclosures.



**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Basis of Presentation and Accounting Policies (Continued)**

*Recent Accounting Pronouncements (Continued)*

In June 2007, the FASB ratified Emerging Issues Task Force 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). EITF 06-11 is effective for us beginning in 2009. We do not believe EITF 06-11 will have a material effect on our financial statements and related disclosures.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits companies to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. SFAS 159 is effective for us beginning in 2009. We do not believe SFAS 159 will have a material effect 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. SFAS 157 will be effective for us beginning in fiscal 2009. We do not believe SFAS 157 will have a material effect on our financial statements; we will expand our disclosures in accordance with the requirements of SFAS 157 upon adoption.

**Table of Contents****ROCKWELL AUTOMATION, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****2. Share-Based Compensation**

We recognized \$6.8 million and \$7.0 million in share-based compensation expense in income from continuing operations before income taxes during the three-months ended December 31, 2007 and 2006, 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 the weighted average fair value per share during the periods presented was (in thousands except per share amounts):

|                         | Three months ended December 31,<br>2007 |                                  | 2006   |                                  |
|-------------------------|-----------------------------------------|----------------------------------|--------|----------------------------------|
|                         | Grants                                  | Wtd. Avg.<br>Share<br>Fair Value | Grants | Wtd. Avg.<br>Share<br>Fair Value |
| Stock options           | 1,533                                   | \$ 17.68                         | 1,103  | \$ 20.03                         |
| Performance shares      | 122                                     | 75.61                            | 99     | 72.24                            |
| Restricted stock awards | 60                                      | 67.83                            | 49     | 63.11                            |
| Total shares granted    | 1,715                                   | 23.56                            | 1,251  | 25.87                            |

**3. Acquisitions and Divestitures***Acquisitions*

In November 2007, our Architecture & Software segment acquired Pavilion Technologies, Inc., a privately held company that is a recognized leader in advanced process control, production optimization and environmental compliance solutions for process and hybrid industries. We expect to complete the final purchase price allocation for this acquisition by the end of fiscal 2008 when we finalize the valuations of the intangible assets acquired.

In fiscal 2007, our Control Products & Solutions segment acquired Industrial Control Services Group Limited, which does business as ICS Triplex, and ProsCon Holdings Ltd. (ProsCon). The aggregate purchase price of these two acquisitions was approximately \$268.8 million in cash.

ICS Triplex, headquartered in the United Kingdom and acquired in July 2007, is a leading global supplier of critical control and safety solutions to process industries. It develops, delivers and maintains advanced products and solutions for high availability, fault-tolerant applications in process industry segments worldwide. It serves primarily the oil and gas, chemicals and power generation industries.

ProsCon is a process solutions systems integrator headquartered in Ireland that we acquired in February 2007. Its areas of expertise include process technology and control systems and information technology, and it serves customers primarily in the pharmaceutical and biotechnology industries.

**Table of Contents****ROCKWELL AUTOMATION, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****3. Acquisitions and Divestitures (Continued)**

We recorded intangible assets of \$126.0 million resulting from the preliminary purchase price allocations of the ICS Triplex and ProsCon acquisitions, which are pending the finalization of the intangible asset valuation and other matters.

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 is not presented as the individual effects of these acquisitions are not material to our results of operations and financial position.

*Divestitures*

On January 31, 2007, we divested our Dodge mechanical and Reliance Electric motors and motor repair services businesses to Baldor Electric Company (Baldor). These were the principal businesses of our former Power Systems operating segment. See Note 13 for more information.

**4. Inventories**

Inventories consist of (in millions):

|                                    | <b>December 31,<br/>2007</b> | <b>September 30,<br/>2007</b> |
|------------------------------------|------------------------------|-------------------------------|
| Finished goods                     | \$ 197.4                     | \$ 184.9                      |
| Work in process                    | 147.7                        | 130.4                         |
| Raw materials, parts, and supplies | 209.5                        | 189.4                         |
| Inventories                        | \$ 554.6                     | \$ 504.7                      |

We report inventories net of the allowance for excess and obsolete inventory of \$39.2 million at December 31, 2007 and \$36.3 million at September 30, 2007.

**5. Property**

Property consists of (in millions):

|                            | <b>December 31,<br/>2007</b> | <b>September 30,<br/>2007</b> |
|----------------------------|------------------------------|-------------------------------|
| Land                       | \$ 7.6                       | \$ 7.5                        |
| Buildings and improvements | 263.4                        | 255.6                         |
| Machinery and equipment    | 1,111.7                      | 1,097.3                       |
| Internal use software      | 256.5                        | 241.7                         |
| Construction in progress   | 50.5                         | 63.0                          |



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|                               |           |           |
|-------------------------------|-----------|-----------|
| Total                         | 1,689.7   | 1,665.1   |
| Less accumulated depreciation | (1,179.5) | (1,154.8) |
| Property, net                 | \$ 510.2  | \$ 510.3  |

**Table of Contents****ROCKWELL AUTOMATION, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****6. Goodwill and Other Intangible Assets**

Changes in the carrying amount of goodwill for the three months ended December 31, 2007 are (in millions):

|                                  | <b>Architecture &amp;<br/>Software</b> | <b>Control<br/>Products &amp;<br/>Solutions</b> | <b>Total</b> |
|----------------------------------|----------------------------------------|-------------------------------------------------|--------------|
| Balance as of September 30, 2007 | \$ 335.1                               | \$ 523.4                                        | \$ 858.5     |
| Acquisition of business          | 37.4                                   |                                                 | 37.4         |
| Translation and other            | (1.3)                                  | 0.5                                             | (0.8)        |
| Balance as of December 31, 2007  | \$ 371.2                               | \$ 523.9                                        | \$ 895.1     |

Other intangible assets consist of (in millions):

|                                               | <b>Carrying<br/>Amount</b> | <b>December 31, 2007<br/>Accumulated<br/>Amortization</b> | <b>Net</b> |
|-----------------------------------------------|----------------------------|-----------------------------------------------------------|------------|
| Amortized intangible assets:                  |                            |                                                           |            |
| Computer software products                    | \$ 114.8                   | \$ 66.9                                                   | \$ 47.9    |
| Customer relationships                        | 57.4                       | 3.1                                                       | 54.3       |
| Technology                                    | 64.9                       | 26.9                                                      | 38.0       |
| Other                                         | 78.3                       | 30.3                                                      | 48.0       |
| Total amortized intangible assets             | 315.4                      | 127.2                                                     | 188.2      |
| Intangible assets not subject to amortization | 72.9                       |                                                           | 72.9       |
| Total                                         | \$ 388.3                   | \$ 127.2                                                  | \$ 261.1   |

|                                               | <b>Carrying<br/>Amount</b> | <b>September 30, 2007<br/>Accumulated<br/>Amortization</b> | <b>Net</b> |
|-----------------------------------------------|----------------------------|------------------------------------------------------------|------------|
| Amortized intangible assets:                  |                            |                                                            |            |
| Computer software products                    | \$ 111.2                   | \$ 63.5                                                    | \$ 47.7    |
| Customer relationships                        | 58.0                       | 2.1                                                        | 55.9       |
| Technology                                    | 65.4                       | 25.0                                                       | 40.4       |
| Other                                         | 52.6                       | 26.9                                                       | 25.7       |
| Total amortized intangible assets             | 287.2                      | 117.5                                                      | 169.7      |
| Intangible assets not subject to amortization | 73.7                       |                                                            | 73.7       |
| Total                                         | \$ 360.9                   | \$ 117.5                                                   | \$ 243.4   |

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The Allen-Bradley® and ICS Triplex™ trademarks have been determined to have an indefinite life, and therefore are not subject to amortization.

Estimated amortization expense is \$37.6 million in 2008, \$28.8 million in 2009, \$20.5 million in 2010, \$17.1 million in 2011 and \$15.3 million in 2012.

We perform the annual evaluation of our goodwill and indefinite life intangible assets for impairment as required by SFAS No. 142, *Goodwill and Other Intangible Assets*, during the second quarter of each year.

**Table of Contents****ROCKWELL AUTOMATION, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****7. Other Current Liabilities**

Other current liabilities consist of (in millions):

|                                                      | <b>December 31,<br/>2007</b> | <b>September 30,<br/>2007</b> |
|------------------------------------------------------|------------------------------|-------------------------------|
| Advance payments from customers and deferred revenue | \$ 151.2                     | \$ 121.5                      |
| Customer returns, rebates and incentives             | 120.5                        | 120.5                         |
| Unrealized losses on foreign exchange contracts      | 35.8                         | 38.2                          |
| Product warranty obligations                         | 34.1                         | 34.9                          |
| Taxes other than income taxes                        | 36.3                         | 42.2                          |
| Accrued interest                                     | 24.9                         | 10.2                          |
| Special charges                                      | 20.9                         | 19.6                          |
| Other                                                | 51.6                         | 59.3                          |
| Other current liabilities                            | \$ 475.3                     | \$ 446.4                      |

**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 from installation to an end-user or OEM customer. We also record a liability for specific warranty matters when they become probable and reasonably estimable. Our product warranty obligations are included in other current liabilities in the Condensed Consolidated Balance Sheet.

Changes in the product warranty obligations for the three months ended December 31, 2007 and 2006 are (in millions):

|                                        | <b>Three Months Ended<br/>December 31,<br/>2007</b> | <b>2006</b> |
|----------------------------------------|-----------------------------------------------------|-------------|
| Balance at beginning of period         | \$ 34.9                                             | \$ 37.1     |
| Warranties recorded at time of sale    | 9.8                                                 | 11.5        |
| Adjustments to pre-existing warranties | (0.2)                                               | (0.1)       |
| Payments                               | (10.4)                                              | (10.4)      |
| Balance at end of period               | \$ 34.1                                             | \$ 38.1     |

**9. Long-term and Short-term Debt**

Long-term debt consists of (in millions):

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|                                   | <b>December 31,<br/>2007</b> | <b>September 30,<br/>2007</b> |
|-----------------------------------|------------------------------|-------------------------------|
| 6.15% notes, payable in 2008      | \$ 349.8                     | \$ 348.2                      |
| 5.65% notes, payable in 2017      | 250.0                        |                               |
| 6.70% debentures, payable in 2028 | 250.0                        | 250.0                         |
| 6.25% debentures, payable in 2037 | 250.0                        |                               |
| 5.20% debentures, payable in 2098 | 200.0                        | 200.0                         |
| Unamortized discount and other    | (46.1)                       | (44.3)                        |
| <br>Total                         | <br>1,253.7                  | <br>753.9                     |
| Less current portion              | (349.8)                      | (348.2)                       |
| <br>Long-term debt                | <br>\$ 903.9                 | <br>\$ 405.7                  |

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**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**9. Long-term and Short-term Debt (Continued)**

In December 2007, we issued an aggregate of \$500 million principal amount of our 5.65% notes due 2017 and 6.25% debentures due 2037. The debt offering yielded approximately \$494.3 million of proceeds, which were used to repay at maturity our 6.15% notes due January 15, 2008 and for general corporate purposes.

We issued an aggregate of \$800 million principal amount of our 6.15% notes, 6.70% debentures and 5.20% debentures in January 1998. The debt offering yielded approximately \$750.0 million of proceeds. We issued the 5.20% debentures at a discount, and the 6.15% notes and 6.70% debentures at par.

In September 2002, we entered into an interest rate swap contract (the Swap) that effectively converted our \$350.0 million aggregate principal amount of 6.15% notes, payable in 2008, to floating rate debt based on six-month LIBOR. The floating rate was 7.80 percent at December 31, 2007 and September 30, 2007. As permitted by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended, we have designated the Swap as a fair value hedge. Accordingly, the fair value of the Swap was recorded in other liabilities in the Condensed Consolidated Balance Sheet with a corresponding adjustment to the carrying value of the underlying debt at December 31, 2007 and September 30, 2007. The fair value of the Swap, based upon quoted market prices for contracts with similar maturities, was a liability of \$0.2 million at December 31, 2007 and a liability of \$1.8 million at September 30, 2007. The swap matured on January 15, 2008.

On October 26, 2004, we entered into a five-year \$600.0 million unsecured revolving credit facility. Our \$600.0 million credit facility remains in effect and we have not drawn down under it at December 31, 2007 or September 30, 2007. Borrowings under our credit facility bear interest based on short-term money market rates in effect during the period the borrowings are outstanding. The terms of our credit facility contain covenants under which we would be in default if our debt-to-total-capital ratio was to exceed 60 percent. We were in compliance with all covenants under our credit facility at December 31, 2007 and September 30, 2007. In addition to our \$600.0 million credit facility, short-term unsecured credit facilities of approximately \$185.4 million at December 31, 2007 were available to foreign subsidiaries. There were no significant commitment fees or compensating balance requirements under any of our credit facilities. Borrowings under our credit facilities during the three months ended December 31, 2007 and 2006 were not significant.

Our short-term debt obligations primarily relate to commercial paper borrowings. We had no commercial paper borrowings outstanding at December 31, 2007 and \$173.0 million of commercial paper borrowings outstanding at September 30, 2007. At September 30, 2007, the weighted average interest rate and maturity period of the commercial paper outstanding were 5.1 percent and three days, respectively.

**Table of Contents****ROCKWELL AUTOMATION, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****10. Retirement Benefits**

The components of net periodic benefit cost in income from continuing operations are (in millions):

|                                |  | <b>Pension Benefits</b>     |             |
|--------------------------------|--|-----------------------------|-------------|
|                                |  | <b>Three Months Ended</b>   |             |
|                                |  | <b>December 31,</b>         |             |
|                                |  | <b>2007</b>                 | <b>2006</b> |
| Service cost                   |  | \$ 14.5                     | \$ 13.3     |
| Interest cost                  |  | 37.4                        | 29.0        |
| Expected return on plan assets |  | (48.3)                      | (36.9)      |
| Amortization:                  |  |                             |             |
| Prior service cost             |  | (1.1)                       | (1.2)       |
| Net actuarial loss             |  | 4.9                         | 5.9         |
| Net periodic benefit cost      |  | \$ 7.4                      | \$ 10.1     |
|                                |  |                             |             |
|                                |  | <b>Other Postretirement</b> |             |
|                                |  | <b>Benefits</b>             |             |
|                                |  | <b>Three Months Ended</b>   |             |
|                                |  | <b>December 31,</b>         |             |
|                                |  | <b>2007</b>                 | <b>2006</b> |
| Service cost                   |  | \$ 1.0                      | \$ 0.8      |
| Interest cost                  |  | 3.4                         | 2.4         |
| Amortization:                  |  |                             |             |
| Prior service cost             |  | (3.6)                       | (4.1)       |
| Net actuarial loss             |  | 3.1                         | 2.0         |
| Net periodic benefit cost      |  | \$ 3.9                      | \$ 1.1      |

Excluded from these net periodic benefit cost tables but included in income from discontinued operations in the Condensed Consolidated Statement of Operations is pre-tax pension benefit cost of \$1.4 million and pre-tax other postretirement benefit cost of \$2.0 million for the three months ended December 31, 2006 related to our Dodge mechanical and Reliance Electric motors and motor repair services businesses. In connection with the sale of these businesses and included in these net periodic benefit cost tables, we retained the pension liability related to eligible Power Systems participants in our U.S. Plan and Canada Salary Plan and the other postretirement benefit liability for eligible U.S. non-union and Canada Salary retirees as of the date of the sale, which will result in ongoing net periodic benefit cost for us. Pension liabilities for our Canada Hourly Plan and Mexico Dodge Plan, as well as other postretirement liabilities, including for U.S. union active and retiree participants, have been transferred with the sale of these businesses.

In the first three months of fiscal 2007, we made a voluntary contribution of \$8.0 million to our U.S. qualified pension plan trust, which increased our prepaid pension asset in the Condensed Consolidated Balance Sheet.

**Table of Contents****ROCKWELL AUTOMATION, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****11. Comprehensive Income**

Comprehensive income consists of (in millions):

|                                                                  | <b>Three Months Ended<br/>December 31,</b> |             |
|------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                  | <b>2007</b>                                | <b>2006</b> |
| Net income                                                       | \$ 156.6                                   | \$ 429.1    |
| Other comprehensive income:                                      |                                            |             |
| Unrecognized pension and postretirement benefit plan liabilities | 1.6                                        |             |
| Currency translation adjustments                                 | 11.5                                       | 21.2        |
| Net unrealized losses on cash flow hedges                        | (0.3)                                      | (4.3)       |
| Other                                                            | (1.5)                                      | (0.4)       |
| Other comprehensive income                                       | 11.3                                       | 16.5        |
| Comprehensive income                                             | \$ 167.9                                   | \$ 445.6    |

**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, 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 adverse effect on our business or financial condition.

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 thousands of 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 Dodge mechanical and Reliance Electric motors and motor repair services businesses prior to their divestiture by us, which occurred on January 31, 2007. We also are responsible for half of the costs and liabilities associated with asbestos cases against Rockwell International Corporation's (RIC'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 most of these claims. We initiated litigation in the Milwaukee County Circuit Court on February 12, 2004 to enforce the insurance policies against Nationwide Indemnity Company and Kemper Insurance, the insurance carriers that provided liability insurance coverage to our former Allen-Bradley subsidiary. As a result, the insurance carriers have paid some past defense and indemnity costs and have agreed to pay the substantial majority of future defense and indemnity costs for Allen-Bradley asbestos claims, subject to policy limits. If either carrier becomes insolvent or the policy limits of either carrier are exhausted, our share of future defense and indemnity costs may increase. However, coverage under excess policies may be available to pay some or all of these costs.



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The uncertainties of asbestos claim litigation and the long term solvency of our insurance carriers 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 adverse effect on our financial condition.

**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**12. Commitments and Contingent Liabilities (Continued)**

In connection with the divestiture of our former aerospace and defense businesses (the A&D Business) to The Boeing Company (Boeing), we agreed to indemnify Boeing for certain matters related to operations of the A&D Business for periods prior to the divestiture. In connection with the spinoffs of our former automotive component systems 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 connection with the sale of our Dodge mechanical and Reliance Electric motors and motor repair services businesses, we agreed to indemnify Baldor 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 purchase price.

We have, from time to time, divested certain of our businesses. In connection with such divestitures, lawsuits, claims and proceedings may be instituted or asserted against us related to the period that we owned the businesses.

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 products; the divestiture of businesses; and the licensing of intellectual property. Due to the number of agreements containing such provisions, we are unable to estimate the maximum potential future payments. However, we believe that future payments, if any, would not be material to our business or financial condition.

**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**13. Discontinued Operations**

The following is a summary of the composition of income from discontinued operations included in the Condensed Consolidated Statement of Operations for the three months ended December 31, 2006 (in millions):

|                                             |          |
|---------------------------------------------|----------|
| Power Systems net income from operations    | \$ 34.8  |
| Rocky Flats net loss from operations        | (0.6)    |
| Income tax benefit on divestiture (Note 14) | 264.0    |
| Income from discontinued operations         | \$ 298.2 |

*Power Systems*

On January 31, 2007, we divested our Dodge mechanical and Reliance Electric motors and motor repair services businesses to Baldor. These businesses are reported as a discontinued operation in the Condensed Consolidated Financial Statements for all periods presented.

*Rocky Flats*

During the quarter ended December 31, 2006, we incurred \$1.0 million (\$0.6 million after-tax) of legal fees associated with the former Rockwell International Corporation's former operation of the Rocky Flats facility for the U.S. Department of Energy (DOE). We paid \$6.2 million to the DOE during the quarter ended December 31, 2007 related to this facility.

*Summarized Results*

Summarized results of discontinued operations for the three months ended December 31, 2006 are (in millions):

|                            |          |
|----------------------------|----------|
| Sales                      | \$ 248.1 |
| Income before income taxes | \$ 51.3  |
| Income tax expense         | (17.1)   |
| Net income                 | \$ 34.2  |

**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**14. Income Taxes**

We adopted the provisions of FIN 48 as of October 1, 2007. As a result, we recognized a \$6.7 million decrease in shareowners' equity. As of October 1, 2007, the gross liability for unrecognized tax benefits recorded on adoption of FIN 48 and reported in other liabilities in the Condensed Consolidated Balance Sheet was \$135.3 million. Of this amount, \$83.7 million would reduce our effective tax rate if recognized.

We recognize interest and penalties related to unrecognized tax benefits in tax expense. As of October 1, 2007, the combined amount of accrued interest and penalties included in the \$135.3 million liability was \$18.8 million.

We do not expect a significant increase or decrease of the total amount of unrecognized tax benefits within the next twelve months. There was no material change of the amount of unrecognized tax benefits in the first quarter of fiscal 2008.

We conduct business globally and are routinely audited by the various tax jurisdictions in which we operate. Our U.S. federal tax returns for 2006 and 2007, Wisconsin tax returns for 2003 through 2007, and tax returns for other major states and foreign jurisdictions for 1998 through 2007 remain subject to examination by taxing authorities.

The base tax rate determined as provided under *Income Taxes* in Note 1 for the full year is estimated to be in a range of 28 to 29 percent, subject to quarterly variability, based on our current forecast of pretax income, permanent book and tax differences and global tax planning strategies for our continuing operations. The effective tax rate for the first quarter of 2008 was 28.5 percent.

The tax rate applied to our discontinued operations for the three months ended December 31, 2006 was approximately 33 percent. This rate reflects that most of the taxable income from discontinued operations is generated in higher tax jurisdictions. The income tax benefit of \$264.0 million recognized in the first quarter of 2007 represents recognition of a deferred tax asset on the difference between our tax basis in the stock of the Power Systems subsidiaries that were sold and the book value of their net assets as well as the reversal of the deferred tax liabilities that will not be realized due to the stock sale. In accordance with the FASB Emerging Issues Task Force Issue 93-17, *Recognition of Deferred Tax Assets for a Parent Company's Excess Tax Basis in the Stock of a Subsidiary that Is Accounted for as a Discontinued Operation*, the tax benefit is recognized upon classification of the subsidiaries as a discontinued operation, which occurred in our first quarter of 2007.

**15. Special Charges**

During 2007, we recorded special charges of \$43.5 million (\$27.7 million after tax or \$0.17 per diluted share) related to various restructuring actions designed to execute on our cost productivity initiatives and to advance our globalization strategy. Actions include workforce reductions, realignment of administrative functions, and rationalization and consolidation of global operations. We paid \$2.7 million related to these charges during the quarter ended December 31, 2007.

**Table of Contents****ROCKWELL AUTOMATION, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****16. Business Segment Information**

The following tables reflect the sales and operating results of our reportable segments (in millions):

|                                                   | <b>Three Months Ended<br/>December 31,</b> |             |
|---------------------------------------------------|--------------------------------------------|-------------|
|                                                   | <b>2007</b>                                | <b>2006</b> |
| Sales                                             |                                            |             |
| Architecture & Software                           | \$ 577.9                                   | \$ 529.0    |
| Control Products & Solutions                      | 754.0                                      | 617.3       |
| Total                                             | \$ 1,331.9                                 | \$ 1,146.3  |
| Segment Operating Earnings                        |                                            |             |
| Architecture & Software                           | \$ 148.5                                   | \$ 147.3    |
| Control Products & Solutions                      | 109.0                                      | 79.7        |
| Total                                             | 257.5                                      | 227.0       |
| Purchase accounting depreciation and amortization | (6.3)                                      | (2.7)       |
| General corporate net                             | (14.2)                                     | (19.0)      |
| Interest expense                                  | (18.0)                                     | (18.4)      |
| Income tax provision                              | (62.4)                                     | (56.0)      |
| Income from continuing operations                 | \$ 156.6                                   | \$ 130.9    |

Among other considerations, we evaluate performance and allocate resources based upon segment operating earnings before income taxes, interest expense, costs related to corporate offices, certain nonrecurring corporate initiatives, gains and losses from the disposition of businesses, earnings and losses from equity affiliates that are not considered part of the operations of a particular segment and incremental acquisition related expenses resulting from purchase accounting adjustments such as intangible asset amortization, depreciation, inventory and purchased research and development charges. Depending on the product, intersegment sales that are within a single legal entity are either at cost or cost plus a mark-up, which does not necessarily represent a market price. Sales between legal entities are at an appropriate transfer price. Costs incurred related to shared segment operating activities are allocated to the segments using a methodology consistent with the expected benefit.

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareowners of

Rockwell Automation, Inc.

Milwaukee, Wisconsin

We have reviewed the accompanying condensed consolidated balance sheet of Rockwell Automation, Inc. and subsidiaries (the Company) as of December 31, 2007, and the related condensed consolidated statements of operations and cash flows for the three-month periods ended December 31, 2007 and 2006. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Rockwell Automation, Inc. and subsidiaries as of September 30, 2007, and the related consolidated statements of operations, shareowners' equity, cash flows and comprehensive equity for the year then ended (not presented herein); and in our report dated November 15, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As described in Note 14 to the Condensed Consolidated Financial Statements, on October 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes.

/s/ DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin

February 6, 2008

**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

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

***Forward-Looking Statement***

This Quarterly Report contains statements (including certain projections and business trends) that are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Words such as believe, estimate, project, plan, expect, anticipate, will, intend, and similar expressions may identify forward-looking statements. Actual results may differ materially from those projected as a result of certain risks and uncertainties, many of which are beyond our control, including but not limited to:

economic and political changes in global markets where we compete, such as currency exchange rates, inflation rates, interest rates, recession, policies of foreign governments and other external factors we cannot control, and U.S. and local laws affecting our activities abroad and compliance therewith;

successful development of advanced technologies and demand for and market acceptance of new and existing products;

general global and regional economic, business or industry conditions, including levels of capital spending in industrial markets;

the availability, effectiveness and security of our information technology systems;

competitive product and pricing pressures;

disruption of our operations due to natural disasters, acts of war, strikes, terrorism, or other causes;

intellectual property infringement claims by others and the ability to protect our intellectual property;

our ability to successfully address claims by taxing authorities in the various jurisdictions where we do business;

our ability to attract and retain qualified personnel;

the uncertainties of litigation;

disruption of our North American distribution channel;

the availability and price of components and materials;

successful execution of our cost productivity and our globalization initiatives;

our ability to execute strategic actions, including acquisitions and integration of acquired businesses; and

other risks and uncertainties, including but not limited to those detailed from time to time in our Securities and Exchange Commission filings.

These forward-looking statements reflect our beliefs as of the date of filing this report. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

#### ***Non-GAAP Measures***

The following discussion includes organic sales and free cash flow, which are non-GAAP measures. See **Supplemental Sales Information** for a reconciliation of reported sales to organic sales and a discussion of why we believe this non-GAAP measure is useful to investors. See **Financial Condition** for a reconciliation of cash flows from operating activities to free cash flow and a discussion of why we believe this non-GAAP measure is useful to investors.



**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

***Overview***

We are a leading global provider of industrial automation power, control and information products, solutions and services. Overall demand for our products is driven by:

investments in manufacturing capacity, including upgrades, modifications, and expansions of existing manufacturing facilities, and the creation of new manufacturing facilities;

our customers' needs for greater productivity, cost reduction, quality, and overall global competitiveness;

industry factors that include our customers' new product introductions, trends in the actual and forecasted demand for our customers' products or services, and the regulatory and competitive environments in which our customers operate;

levels of global industrial production;

regional factors that include local political, social, regulatory and economic circumstances; and

the seasonal capital spending patterns of our customers due to their annual capital budgeting processes and their working schedules.

**Table of Contents****ROCKWELL AUTOMATION, INC.*****U.S. Industrial Economic Trends***

The various indicators we use to gauge the direction and momentum of our U.S. served markets include:

Industrial Equipment Spending, which is an economic statistic compiled by the Bureau of Economic Analysis (BEA). This statistic provides insight into spending trends in the broad U.S. industrial economy and is utilized, along with other economic indicators, to forecast industrial equipment spending. This measure over the longer term has proven to have reasonable predictive value as a directional indicator of our domestic growth.

Capacity Utilization, which is an indication of plant operating activity published by the Federal Reserve. Historically there has been a meaningful correlation between Capacity Utilization and the level of capital investment made by our U.S. customers in their manufacturing base.

The Manufacturing Purchasing Managers Index (PMI), published by the Institute for Supply Management (ISM), which is an indication of the current and near-term state of manufacturing activity in the U.S. According to the ISM, a PMI measure above 50 indicates that the U.S. manufacturing economy is generally expanding while a measure below 50 indicates that it is generally contracting.

The table below shows a sequential decline in the U.S. Industrial Equipment Spending from September 2007, although it has increased on a year over year basis compared to December 2006. Capacity Utilization has remained above 80 since September 2006 and is in line with recent quarters. For the month of December, the PMI fell below 50 for the first time in 11 months.

|                    | <b>Industrial<br/>Equipment<br/>Spending<br/>(in<br/>billions)</b> | <b>Capacity<br/>Utilization<br/>(percent)</b> | <b>PMI</b> |
|--------------------|--------------------------------------------------------------------|-----------------------------------------------|------------|
| <u>Fiscal 2008</u> |                                                                    |                                               |            |
| December 2007      | \$ 175.6                                                           | 81.4                                          | 48.4       |
| <u>Fiscal 2007</u> |                                                                    |                                               |            |
| September 2007     | 180.6                                                              | 81.9                                          | 50.5       |
| June 2007          | 176.0                                                              | 81.8                                          | 53.4       |
| March 2007         | 168.1                                                              | 81.4                                          | 50.7       |
| December 2006      | 167.5                                                              | 81.6                                          | 51.5       |
| <u>Fiscal 2006</u> |                                                                    |                                               |            |
| September 2006     | 169.2                                                              | 82.0                                          | 51.9       |

*Note: Economic indicators are subject to revisions by the issuing organizations.*

**Table of Contents****ROCKWELL AUTOMATION, INC.*****Non-U.S. Regional Trends***

Outside the U.S., demand for our products and services is principally driven by the strength of the industrial economy in each region and by our customers' ability and propensity to invest in their manufacturing assets. These customers may include both multinational companies with expanding global presence and a growing number of local companies. Recent strength in demand for our products and services has, in part, been driven by investment in infrastructure in developing economies, investments in basic materials production capacity in response to higher end-product pricing and in expanding consumer markets. In the first quarter of 2008, we continued to see strong demand in Latin America and continued improved performance in Asia-Pacific.

***Revenue by Geographic Region***

In the first quarter of 2008, sales to non-U.S. customers accounted for approximately 50 percent of our total sales. The table below presents our sales for the quarter ended December 31, 2007 by geographic region and the change in sales from the quarter ended December 31, 2006 (in millions, except percentages):

|                                | Three<br>Months Ended<br>Dec. 31, 2007(1) | Change vs. Three<br>Months Ended<br>Dec. 31, 2006 | Change in Sales<br>Excluding Effect<br>of Currency<br>vs. Three<br>Months Ended<br>Dec. 31, 2006(2) | Change in<br>Organic Sales<br>vs. Three<br>Months Ended<br>Dec. 31, 2006(2) |
|--------------------------------|-------------------------------------------|---------------------------------------------------|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| United States                  | \$ 671.4                                  | 6%                                                | 5%                                                                                                  | 4%                                                                          |
| Canada                         | 95.2                                      | 25%                                               | 8%                                                                                                  | 7%                                                                          |
| Europe, Middle East and Africa | 304.7                                     | 33%                                               | 20%                                                                                                 | 7%                                                                          |
| Asia-Pacific                   | 163.4                                     | 21%                                               | 13%                                                                                                 | 11%                                                                         |
| Latin America                  | 97.2                                      | 37%                                               | 28%                                                                                                 | 28%                                                                         |
| Total Sales                    | \$ 1,331.9                                | 16%                                               | 11%                                                                                                 | 7%                                                                          |

- (1) We attribute sales to the geographic regions based upon country of destination.
- (2) Organic sales and sales excluding effect of currency are non-GAAP measures. See **Supplemental Information** for information on these non-GAAP measures.

***Industry Views***

We serve customers in a wide range of industries, including consumer, resource-based and transportation.

Our consumer industry customers are engaged in the food and beverage, home and personal care, and life sciences industries. These customers' needs include global expansion, incremental capacity from existing facilities, an increasingly flexible manufacturing environment and regulatory compliance. In addition, these customers operate in an environment where product innovation and time to market are critical factors. Consumer products customers' capital investments are generally less cyclical than those of resource-based customers.

Our customers in resource-based industries, including oil and gas, mining, aggregates, metals, water/wastewater, forest products and cement, all benefit from higher commodity prices and higher global demand for basic materials, both of which encourage investment in capacity and productivity in these industries. Higher energy prices have historically caused customers across all industries to consider investing in more energy-efficient manufacturing processes and technologies, such as intelligent motor controls.

In transportation, factors such as excess capacity, geographic expansion, investment in new model introductions and more flexible manufacturing technologies affect our sales.



**Table of Contents****ROCKWELL AUTOMATION, INC.***Summary of Results of Operations**2008 First Quarter Compared to 2007 First Quarter*

|                                                   | <b>Three Months Ended<br/>December 31,</b> |             |
|---------------------------------------------------|--------------------------------------------|-------------|
|                                                   | <b>2007</b>                                | <b>2006</b> |
| Sales                                             |                                            |             |
| Architecture & Software                           | \$ 577.9                                   | \$ 529.0    |
| Control Products & Solutions                      | 754.0                                      | 617.3       |
| Total                                             | \$ 1,331.9                                 | \$ 1,146.3  |
| Segment Operating Earnings                        |                                            |             |
| Architecture & Software                           | \$ 148.5                                   | \$ 147.3    |
| Control Products & Solutions                      | 109.0                                      | 79.7        |
| Purchase accounting depreciation and amortization | (6.3)                                      | (2.7)       |
| General corporate net                             | (14.2)                                     | (19.0)      |
| Interest expense                                  | (18.0)                                     | (18.4)      |
| Income tax provision                              | (62.4)                                     | (56.0)      |
| Income from continuing operations                 | 156.6                                      | 130.9       |
| Discontinued operations                           |                                            | 298.2       |
| Net income                                        | \$ 156.6                                   | \$ 429.1    |
| Diluted earnings per share:                       |                                            |             |
| Continuing operations                             | \$ 1.04                                    | \$ 0.76     |
| Discontinued operations                           |                                            | 1.74        |
| Net income                                        | \$ 1.04                                    | \$ 2.50     |
| Diluted weighted average outstanding shares       | 151.0                                      | 171.4       |

See Note 16 in the Condensed Consolidated Financial Statements for the definition of segment operating earnings.

*Sales*

Sales increased 16 percent compared to the first quarter of 2007. Regional expansion and the ongoing diversification of our revenue base contributed to our growth rate as approximately 50 percent of our sales during the quarter were to non-U.S. customers. Organic sales increased 7 percent, as foreign currency translation and acquisitions added 5 and 4 percentage points to the growth rate, respectively. We continued to see strong organic growth in Latin America of 28 percent, benefiting from continued strength in resource-based industries. We demonstrated continued improved performance in the Asia-Pacific region with organic growth of 11 percent and solid organic growth rates in the U.S. and Canada. Europe, Middle East and Africa experienced strong growth in Eastern Europe, but was sluggish in the developed countries, particularly the U.K. We experienced healthy revenue growth in our key process and OEM growth initiatives. During the quarter we also realized above average growth in the life sciences and oil and gas industries, partially offset by below average growth in the automotive industry due to the continued weakness in the Detroit automotive market.

*Purchase Accounting Depreciation and Amortization*

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Purchase accounting depreciation and amortization expenses were \$6.3 million in the first quarter of 2008 compared to \$2.7 million in the first quarter of 2007. The increase is primarily due to our recent acquisitions of Pavilion Technologies, ICS Triplex and ProsCon Holdings.

### *General Corporate-Net*

General corporate expenses were \$14.2 million in the first quarter of 2008 compared to \$19.0 million in the first quarter of 2007. The decrease is primarily due to a \$6.2 million gain on the sale of the remaining Baldor shares received from the divestiture of Power Systems.

**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

***2008 First Quarter Compared to 2007 First Quarter (Continued)***

*Income Taxes*

The effective tax rate for the first quarter of 2008 was 28.5 percent compared to 30.0 percent in the first quarter of 2007. The effective tax rate was lower than the U.S. statutory tax rate of 35 percent because we benefited from lower non-U.S. tax rates and the utilization of foreign tax credits.

*Income from Continuing Operations*

Income from continuing operations increased 20 percent to \$156.6 million, compared to the first quarter of 2007. The increase is primarily due to strong productivity performance, higher volume and the sale of the remaining Baldor shares. Productivity realization allowed us to generate strong earnings, while sustaining investments to drive globalization, growth and technology leadership.

*Discontinued Operations*

Amounts reported for discontinued operations primarily relate to the results of our former Power Systems operating segment. Power Systems sales in the first quarter of 2007 were \$248.1 million. Operating earnings were \$53.2 million. Operating earnings in 2007 included the benefit of discontinuing depreciation and amortization of \$5.7 million (\$3.8 million after tax, or \$0.02 per diluted share) during the period held for sale.

The tax rate applied to our discontinued operations was approximately 33 percent. This rate reflects that most of the taxable income from discontinued operations was generated in higher tax jurisdictions. The income tax benefit of \$264.0 million on the divestiture represents recognition of a deferred tax asset on the difference between our tax basis in the stock of the Power Systems subsidiaries that were sold and the book value of their net assets as well as the reversal of the deferred tax liabilities that were not realized due to the stock sale. In accordance with the FASB Emerging Issues Task Force Issue 93-17, *Recognition of Deferred Tax Assets for a Parent Company's Excess Tax Basis in the Stock of a Subsidiary that Is Accounted for as a Discontinued Operation*, the tax benefit is recognized upon classification of the subsidiaries as a discontinued operation.

See also Note 13 in the Condensed Consolidated Financial Statements for additional information on discontinued operations.

*Architecture & Software*

| <b>(in millions, except percentages)</b> | <b>2008</b> | <b>2007</b> | <b>Increase<br/>(Decrease)</b> |
|------------------------------------------|-------------|-------------|--------------------------------|
| Sales                                    | \$577.9     | \$529.0     | \$48.9                         |
| Segment operating earnings               | 148.5       | 147.3       | 1.2                            |
| Segment operating margin                 | 25.7%       | 27.8%       | (2.1) pts                      |
| <i>Sales</i>                             |             |             |                                |

Sales by the Architecture & Software operating segment increased 9 percent in the first quarter of 2008 compared to the first quarter of 2007. Foreign currency translation added 5 percentage points to the growth rate. Our growth during the quarter was primarily driven by our OEM initiatives, process applications and Logix offerings, partially offset by a decline in our legacy processor product offerings.

*Operating Margin*

Architecture & Software segment operating margin decreased 2.1 points to 25.7 percent due to increased spending on our technology and growth initiatives and unfavorable product mix as processors and software were a lower percentage of our total sales. These items were partially offset by volume leverage and productivity initiatives.





**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

***2008 First Quarter Compared to 2007 First Quarter (Continued)***

*Control Products & Solutions*

(in millions, except percentages)

|                            | 2008    | 2007    | Increase |
|----------------------------|---------|---------|----------|
| Sales                      | \$754.0 | \$617.3 | \$136.7  |
| Segment operating earnings | 109.0   | 79.7    | 29.3     |
| Segment operating margin   | 14.5%   | 12.9%   | 1.6 pts  |
| <i>Sales</i>               |         |         |          |

Sales of our Control Products & Solutions operating segment increased 22 percent in the first quarter of 2008 compared to the first quarter of 2007. Acquisitions and foreign currency translation each added 6 percentage points to the growth rate. Year over year results benefited from the execution of our growth initiatives and strong growth in our solutions businesses, as well as in the life sciences and oil and gas industries.

*Operating Margin*

Control Products & Solutions segment operating margin improved by 1.6 points to 14.5 percent. The increase is primarily due to strong productivity performance and volume leverage, partially offset by the impact of acquisitions.

**Table of Contents****ROCKWELL AUTOMATION, INC.****Financial Condition**

The following is a summary of our cash flows from operating, investing and financing activities, as reflected in the Condensed Consolidated Statement of Cash Flows (in millions):

|                                                              | <b>Three Months<br/>Ended<br/>December 31,</b> |             |
|--------------------------------------------------------------|------------------------------------------------|-------------|
|                                                              | <b>2007</b>                                    | <b>2006</b> |
| Cash provided by (used for):                                 |                                                |             |
| Operating activities                                         | \$ 101.5                                       | \$ 98.2     |
| Investing activities                                         | (51.6)                                         | (27.1)      |
| Financing activities                                         | 191.6                                          | (69.3)      |
| Effect of exchange rate changes on cash                      | 6.9                                            | 5.9         |
| Cash provided by continuing operations                       | \$ 248.4                                       | \$ 7.7      |
| The following table summarizes free cash flow (in millions): |                                                |             |
| Cash provided by continuing operating activities             | \$ 101.5                                       | \$ 98.2     |
| Capital expenditures of continuing operations                | (26.3)                                         | (29.2)      |
| Excess income tax benefit from the exercise of stock options | 2.9                                            | 4.7         |
| Free cash flow                                               | \$ 78.1                                        | \$ 73.7     |

Our definition of free cash flow, which is a non-GAAP financial measure, takes into consideration capital investments required to maintain the operations of our businesses and execute our strategy. In the first quarter of 2006 we adopted SFAS 123(R), which requires that we report the excess income tax benefit from the exercise of stock options as a financing cash flow rather than as an operating cash flow. We have added this benefit back to our calculation of free cash flow in order to generally classify cash flows arising from income taxes as operating cash flows. In our opinion, free cash flow provides useful information to investors regarding our ability to generate cash from business operations that is available for acquisitions and other investments, service of debt principal, dividends and share repurchases. We use free cash flow as one measure to monitor and evaluate performance. Our definition of free cash flow may be different from definitions used by other companies.

Free cash flow was a source of \$78.1 million for the three months ended December 31, 2007 compared to a source of \$73.7 million for the three months ended December 31, 2006. The increase in free cash flow is primarily due to an increase in current year earnings, partially offset by the timing of estimated income tax payments.

In December 2007, we issued an aggregate of \$500 million principal amount of our 5.65% notes due 2017 and 6.25% debentures due 2037. The debt offering yielded approximately \$494.3 million of proceeds, which were used to repay at maturity our 6.15% notes due January 15, 2008 and for general corporate purposes.

Commercial paper is our principal source of short-term financing. No commercial paper borrowings were outstanding at December 31, 2007 as a portion of the proceeds from the \$500 million debt offering were used to repay outstanding balances during the quarter. At September 30, 2007, commercial paper borrowings outstanding were \$173.0 million, with a weighted average interest rate of 5.1 percent.

We repurchased approximately 1.4 million shares of our common stock in the first quarter of 2008, of which 86,000 shares did not settle until January, 2008. The total cost of these shares was \$96.0 million, of which \$6.0 million was recorded in accounts payable at December 31, 2007. This is compared to purchases of approximately 5.6 million shares at a cost of \$351.1 million in the first quarter of 2007. We anticipate continuing to repurchase stock in 2008, the amount of which will depend ultimately on business conditions, stock price, free cash flow generation and other cash requirements. At December 31, 2007, we had approximately \$930.3 million remaining for stock repurchases under our existing board authorization. See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, for additional information.

regarding share repurchases.

**Table of Contents****ROCKWELL AUTOMATION, INC.****Financial Condition (Continued)**

We expect future uses of cash to include repayments of short-term borrowings, repurchases of common stock, dividends to shareowners, capital expenditures and acquisitions of businesses and may include additional contributions to our pension plans. We expect capital expenditures from continuing operations in 2008 to be about \$145 million. We expect to fund these future uses of cash with existing cash balances, cash generated by operating activities, commercial paper borrowings, a new issue of debt or issuance of other securities.

In addition to cash generated by operating activities, we have access to existing financing sources, including the public debt markets and unsecured credit facilities with various banks. Our debt-to-total-capital ratio was 41.3 percent at December 31, 2007 and 34.7 percent at September 30, 2007. The increase is due to the \$500 million of debt issued in December 2007 in anticipation of the January 15, 2008 maturity of our 6.15% notes.

In October 2004, we entered into a five-year \$600.0 million unsecured revolving credit facility. Our credit facility remains in effect and we had not drawn down under it at December 31, 2007 or September 30, 2007. Borrowings under our credit facility bear interest based on short-term money market rates in effect during the period the borrowings are outstanding. The terms of our credit facility contain covenants under which we would be in default if our debt-to-total-capital ratio was to exceed 60 percent. We were in compliance with all covenants under our credit facility at December 31, 2007 and September 30, 2007. In addition to our \$600.0 million credit facility, short-term unsecured credit facilities of approximately \$185.4 million at December 31, 2007 were available to foreign subsidiaries.

The following is a summary of our credit ratings as of December 31, 2007:

| <b>Credit Rating Agency</b> | <b>Short<br/>Term<br/>Rating</b> | <b>Long<br/>Term<br/>Rating</b> | <b>Outlook</b> |
|-----------------------------|----------------------------------|---------------------------------|----------------|
| Standard & Poor's           | A-1                              | A                               | Stable         |
| Moody's                     | P-1                              | A2                              | Stable         |
| Fitch Ratings               | F1                               | A                               | Stable         |

Among other uses, we can draw on our credit facility as a standby liquidity facility to repay our outstanding commercial paper as it matures. This access to funds to repay maturing commercial paper is an important factor in maintaining the ratings set forth in the table above that have been given to our commercial paper. Under our current policy with respect to these ratings, we expect to limit our other borrowings under the credit facility, if any, to amounts that would leave enough credit available under the facility so that we could borrow, if needed, to repay all of our then outstanding commercial paper as it matures.

If our access to the commercial paper market is adversely affected due to a change in market conditions or otherwise, we would expect to rely on a combination of available cash and the unsecured committed credit facility to provide short-term funding. In such event, the cost of borrowings under the unsecured committed credit facility could be higher than the cost of commercial paper borrowings.

Information with respect to our contractual cash obligations is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. We believe that at December 31, 2007, there has been no material change to this information, except as follows: In December 2007, we issued an aggregate of \$500 million principal amount of our 5.65% notes due 2017 and 6.25% debentures due 2037. The debt offering yielded approximately \$494.3 million of proceeds, which were used to repay at maturity our 6.15% notes due January 15, 2008 and for general corporate purposes. Interest payable under the new debt will be \$14.7 million for the balance of 2008, \$29.8 million in 2009, \$29.8 million in 2010, \$29.8 million in 2011, \$29.8 million in 2012 and \$475.9 million thereafter. The Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which became effective for us on October 1, 2007. The total gross liability for unrecognized tax benefits recorded on adoption of FIN 48 was \$135.3 million. We are unable to make a reasonably reliable estimate of the period of cash settlement related to these liabilities for unrecognized tax benefits.

**Environmental**

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Information with respect to the effect on us and our manufacturing operations of compliance with environmental protection requirements and resolution of environmental claims is contained in Note 17 of the Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. We believe that at December 31, 2007, there has been no material change to this information.

**Table of Contents****ROCKWELL AUTOMATION, INC.****Supplemental Sales Information**

We translate sales of subsidiaries operating outside of the United States using exchange rates effective during the respective period. Therefore, changes in currency rates affect our reported sales. Sales by businesses we acquired also affect our reported sales. We believe that organic sales, defined as sales excluding the effects of changes in currency exchange rates and acquisitions, which is a non-GAAP financial measure, provides useful information to investors because it reflects regional performance from the activities of our businesses without the effect of changes in currency rates or acquisitions. We use organic sales as one measure to monitor and evaluate our regional performance. We determine the effect of changes in currency exchange rates by translating the respective period's sales using the same currency exchange rates that were in effect in the prior year. We determine the effect of acquisitions by excluding sales in the current period for which there are no sales in the comparable prior period. Organic sales growth is calculated by comparing organic sales to reported sales in the prior year. We attribute sales to the geographic regions based on the country of destination.

The following is a reconciliation of our reported sales to organic sales (in millions):

|                                | Three Months Ended December 31, 2007 |                               |                                     |                        |               | Three Months Ended December 31, 2006 |
|--------------------------------|--------------------------------------|-------------------------------|-------------------------------------|------------------------|---------------|--------------------------------------|
|                                | Sales                                | Effect of Changes in Currency | Sales Excluding Changes in Currency | Effect of Acquisitions | Organic Sales | Sales                                |
| United States                  | \$ 671.4                             | \$ (2.4)                      | \$ 669.0                            | \$ (11.2)              | \$ 657.8      | \$ 634.7                             |
| Canada                         | 95.2                                 | (12.8)                        | 82.4                                | (0.9)                  | 81.5          | 76.4                                 |
| Europe, Middle East and Africa | 304.7                                | (29.6)                        | 275.1                               | (28.6)                 | 246.5         | 229.5                                |
| Asia-Pacific                   | 163.4                                | (11.3)                        | 152.1                               | (2.7)                  | 149.4         | 134.7                                |
| Latin America                  | 97.2                                 | (6.5)                         | 90.7                                |                        | 90.7          | 71.0                                 |
| Total Company Sales            | \$ 1,331.9                           | \$ (62.6)                     | \$ 1,269.3                          | \$ (43.4)              | \$ 1,225.9    | \$ 1,146.3                           |

The following is a reconciliation of our reported sales by operating segment to organic sales (in millions):

|                              | Three Months Ended December 31, 2007 |                               |                                     |                        |               | Three Months Ended December 31, 2006 |
|------------------------------|--------------------------------------|-------------------------------|-------------------------------------|------------------------|---------------|--------------------------------------|
|                              | Sales                                | Effect of Changes in Currency | Sales Excluding Changes in Currency | Effect of Acquisitions | Organic Sales | Sales                                |
| Architecture & Software      | \$ 577.9                             | \$ (28.6)                     | \$ 549.3                            | \$ (4.1)               | \$ 545.2      | \$ 529.0                             |
| Control Products & Solutions | 754.0                                | (34.0)                        | 720.0                               | (39.3)                 | 680.7         | 617.3                                |
| Total Company Sales          | \$ 1,331.9                           | \$ (62.6)                     | \$ 1,269.3                          | \$ (43.4)              | \$ 1,225.9    | \$ 1,146.3                           |



**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

**Critical Accounting Policies and Estimates**

We have prepared the Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Condensed Consolidated Financial Statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Information with respect to our critical accounting policies that we believe could have the most significant effect on our reported results or require subjective or complex judgments by management is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. We believe that at December 31, 2007, there has been no material change to this information, except as follows:

Effective October 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). We have assessed our position with regard to tax exposures and uncertain tax positions under its requirements. The adoption of FIN 48 resulted in a decrease to shareowners' equity of \$6.7 million.

**Recent Accounting Pronouncements**

See Note 1 in the Condensed Consolidated Financial Statements regarding recent accounting pronouncements.



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**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

**Item 3.      *Quantitative and Qualitative Disclosures About Market Risk***

Information with respect to our exposure to interest rate risk and foreign currency risk is contained in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. We believe that at December 31, 2007, there has been no material change to this information.

**Item 4.      *Controls and Procedures***

*Disclosure Controls and Procedures:* We, with the participation of our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of the end of the fiscal quarter covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the fiscal quarter covered by this report, our disclosure controls and procedures were effective.

*Internal Control Over Financial Reporting:* There has not been any change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

As previously disclosed, we are in the process of developing and implementing common global process standards and an enterprise-wide information technology system. Additional implementations will occur at most locations of our company over a multi-year period, with additional phases scheduled throughout fiscal 2008-2010.

**PART II.   OTHER INFORMATION**

**Item 1.      *Legal Proceedings***

Information about our legal proceedings is contained in Item 3, Legal Proceedings, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. Such information is updated in its entirety, as of February 6, 2008, as follows:

*Rocky Flats Plant.* RIC operated the Rocky Flats Plant (the Plant), Golden, Colorado, from 1975 through December 1989 for the Department of Energy (DOE). Incident to Boeing's acquisition of RIC in 1996, we assumed and agreed to indemnify RIC and Boeing for any liability arising out of RIC's activities at the Plant to the extent such liability is not assumed or indemnified by the government, and RIC and Boeing assigned to us the right to any reimbursements or other proceeds to which they might be entitled under RIC's Rocky Flats contracts with the DOE.

On January 30, 1990, a class action was filed in the United States District Court for the District of Colorado against RIC and another former operator of the Plant. The action alleges the improper production, handling and disposal of radioactive and other hazardous substances, constituting, among other things, violations of various environmental, health and safety laws and regulations, and misrepresentation and concealment of the facts relating thereto. On October 8, 1993, the court certified separate medical monitoring and property value classes. On February 14, 2006, a jury empanelled to try certain of the class action plaintiffs' property damage claims found the contractor defendants liable for trespass and nuisance, and awarded \$176 million in compensatory damages and \$200 million in punitive damages against the two defendants collectively. The jury also found RIC to be 10% responsible for the trespass and 70% responsible for the nuisance. No appealable judgment has been entered on the jury verdict, in part because the court has yet to decide how the damages are to be allocated between the defendants and among the plaintiff class members. Appeals are likely after judgment is entered. Effective August 1, 1996, the DOE assumed control of the defense of the contractor defendants, including RIC, in the action and has either reimbursed or paid directly the costs of RIC's defense. We believe that RIC is entitled under applicable law and its contract with the DOE to be indemnified for the verdict and other costs associated with this action.



**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

**Item 1. Legal Proceedings (Continued)**

On November 13, 1990, RIC was served with another civil action brought against it in the same court by James Stone, claiming to act in the name of the United States, alleging violations of the U.S. False Claims Act in connection with its operation of the Plant. On April 1, 1999 a jury awarded the plaintiffs approximately \$1.4 million in damages. On May 18, 1999, the court entered judgment against RIC for approximately \$4.2 million, trebling the jury's award as required by the False Claims Act, and imposing a civil penalty of \$15,000. We have paid this judgment to the U.S. government. We believe that RIC is entitled under applicable law and its contract with the DOE to be indemnified for all costs and any liability associated with this action. However, as described below, the Civilian Board of Contract Appeals has denied RIC's claim seeking reimbursement of certain of those costs.

On January 8, 1991, RIC filed suit in the United States Court of Federal Claims against the DOE, seeking recovery of \$6.5 million of award fees that it alleges are owed to it under the terms of its contract with the DOE for management and operation of the Plant during the period October 1, 1988 through September 30, 1989. On January 18, 2007, the Court entered judgment in RIC's favor, which requires the DOE to pay us \$3.1 million, plus interest since 1991. We received \$6.0 million from the DOE on July 2, 2007. On May 4, 2005, RIC filed another claim with the DOE, seeking recovery of \$11.3 million in unreimbursed costs incurred in defense of the Stone suit. On September 30, 2005, the DOE Contracting Officer denied that claim and demanded repayment of \$4 million in previously reimbursed Stone defense costs. On November 10, 2005, RIC appealed both aspects of the Contracting Officer's decision regarding Stone defense costs to the Civilian Board of Contract Appeals. On July 9, 2007, the Board ruled that the DOE is entitled to be repaid the previously reimbursed Stone defense costs and that RIC cannot recover its unreimbursed costs. Further proceedings before the Board to determine the amount to be repaid are in their early stages. Any appeals from the Board's rulings will be filed only after these further proceedings are concluded.

*Asbestos.* 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 thousands of 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 Dodge mechanical and Reliance Electric motors and motor repair services businesses prior to their divestiture by us, which occurred on January 31, 2007. We also are responsible for half of the costs and liabilities associated with asbestos cases against RIC'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 most of these claims. We initiated litigation in the Milwaukee County Circuit Court on February 12, 2004 to enforce the insurance policies against Nationwide Indemnity Company and Kemper Insurance, the insurance carriers that provided liability insurance coverage to our former Allen-Bradley subsidiary. As a result, the insurance carriers have paid some past defense and indemnity costs and have agreed to pay the substantial majority of future defense and indemnity costs for Allen-Bradley asbestos claims, subject to policy limits. If either carrier becomes insolvent or the policy limits of either carrier are exhausted, our share of future defense and indemnity costs may increase. However, coverage under excess policies may be available to pay some or all of these costs.

The uncertainties of asbestos claim litigation and the long term solvency of our insurance companies 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 adverse effect on our financial condition.

**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

**Item 1. Legal Proceedings (Continued)**

*Foreign Corrupt Practices Act.* As a result of an internal review, we determined during the fourth quarter of 2006 that actions by a small number of employees at certain of our operations in one jurisdiction may have violated the U.S. Foreign Corrupt Practices Act (FCPA) or other applicable laws. We and some of our distributors do business in this jurisdiction with government owned enterprises or government owned enterprises that are evolving to commercial businesses. These actions involved payments for non-business travel expenses and certain other business arrangements involving potentially improper payment mechanisms for legitimate business expenses. Special outside counsel has been engaged to investigate the actions and report to the Audit Committee. Their review is ongoing.

We voluntarily disclosed these actions to the U.S. Department of Justice ( DOJ ) and the Securities and Exchange Commission ( SEC ) beginning in September 2006. We are implementing thorough remedial measures, and are cooperating on these issues with the DOJ and SEC. We have agreed to update the DOJ and SEC periodically regarding any further developments as the investigation continues.

If violations of the FCPA occurred, we may be subject to consequences that could include fines, penalties, other costs and business-related impacts. We could also face similar consequences from local authorities. We do not believe the consequences of this investigation, the remediation or any related penalties or business related impacts will have a material adverse effect on our business, results of operations or financial condition.

*Other.* Various other 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 adverse effect on our business or financial condition.

**Item 1A. Risk Factors**

Information about our most significant risk factors is contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. We believe that at December 31, 2007 there has been no material change to this information.

**Table of Contents****ROCKWELL AUTOMATION, INC.****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.***Share Repurchases*

The table below sets forth information with respect to purchases made by or on behalf of us of shares of our common stock during the three months ended December 31, 2007:

| <b>Period</b>       | <b>Total<br/>Number<br/>of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>Per<br/>Share<sup>(1)</sup></b> | <b>Total Number<br/>of Shares<br/>Purchased as<br/>Part of Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Maximum Approx.<br/>Dollar Value<br/>of shares that may<br/>yet be Purchased<br/>Under the Plans or<br/>Programs<sup>(2)</sup></b> |
|---------------------|---------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| October 1-31, 2007  | 241,300                                                 | \$ 66.96                                                          | 241,300                                                                                                         | 10,165,672                                                                                                                            |
| November 1-30, 2007 | 625,058                                                 | 67.12                                                             | 625,058                                                                                                         | 968,210,697                                                                                                                           |
| December 1-31, 2007 | 545,000                                                 | 69.54                                                             | 545,000                                                                                                         | 930,309,397                                                                                                                           |
| Total               | 1,411,358                                               | 68.03                                                             | 1,411,358                                                                                                       |                                                                                                                                       |

(1) Average price paid per share includes brokerage commissions.

(2) On November 7, 2007, our Board of Directors approved a \$1.0 billion share repurchase program. This program was in addition to our former \$1.0 billion dollar share repurchase program in effect since February 7, 2007. Our former repurchase program was completed on November 14, 2007 and no shares remained subject to repurchase under the former program after that date. Our repurchase programs allow management to repurchase shares at its discretion. However, during quarter-end quiet periods, defined as the period of time from quarter-end until two days following the filing of our quarterly earnings results with the SEC on Form 8-K, shares are repurchased at our broker's discretion pursuant to a share repurchase plan subject to price and volume parameters.

**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

**Item 6. Exhibits**

(a) Exhibits:

- Exhibit 4.1 - Form of certificate for the Company's 5.65% Notes due December 1, 2017, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 3, 2007, is hereby incorporated by reference.
- Exhibit 4.2 - Form of certificate for the Company's 6.25% Debentures due December 1, 2037, filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated December 3, 2007, is hereby incorporated by reference.
- Exhibit 10.1\* - Description of the Company's performance measures and goals for the Company's Incentive Compensation Plan and Annual Incentive Compensation Plan for Senior Executives for fiscal year 2008, contained in the Company's Current Report on Form 8-K dated December 10, 2007, is hereby incorporated by reference.
- Exhibit 10.2\* - Memorandum of Proposed Amendment and Restatement of the Rockwell Automation, Inc. Deferred Compensation Plan approved and adopted by the Board of Directors of the Company on November 7, 2007.
- Exhibit 10.3\* - Memorandum of Amendments to the Rockwell Automation, Inc. 2003 Directors Stock Plan approved and adopted by the Board of Directors of the Company on November 7, 2007.
- Exhibit 10.4\* - Memorandum of Proposed Amendment and Restatement of the Rockwell Automation, Inc. 2000 Long-Term Incentives Plan, as amended, approved and adopted by the Board of Directors of the Company on November 7, 2007.
- Exhibit 10.5\* - Forms of Stock Option Agreement under the Company's 2000 Long-Term Incentives Plan, as amended, for options granted to executive officers of the Company after December 1, 2007.
- Exhibit 10.6\* - Form of Restricted Stock Agreement under the Company's 2000 Long-Term Incentives Plan, as amended, for shares of restricted stock awarded after December 1, 2007.
- Exhibit 10.7\* - Form of Performance Share Agreement under the Company's 2000 Long-Term Incentives Plan, as amended, for performance shares awarded after December 1, 2007.
- Exhibit 10.8\* - Change of Control Agreement dated as of November 9, 2007 between the Company and Keith D. Nosbusch, filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated November 15, 2007, is hereby incorporated by reference.
- Exhibit 10.9\* - Form of Change of Control Agreement dated as of November 9, 2007 between the Company and each of Theodore D. Crandall, Steven A. Eisenbrown, Douglas M. Hagerman, John P. McDermott and certain other corporate officers, filed as Exhibit 99.2 to the Company's Current Report on Form 8-K dated November 15, 2007, is hereby incorporated by reference.

**Table of Contents**

**ROCKWELL AUTOMATION, INC.**

|              |                                                                                                                                     |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit 12   | - Computation of Ratio of Earnings to Fixed Charges for the Three Months Ended December 31, 2007.                                   |
| Exhibit 15   | - Letter of Deloitte & Touche LLP regarding Unaudited Financial Information                                                         |
| Exhibit 31.1 | - Certification of Periodic Report by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 |
| Exhibit 31.2 | - Certification of Periodic Report by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 |
| Exhibit 32.1 | - Certification of Periodic Report by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002         |
| Exhibit 32.2 | - Certification of Periodic Report by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002         |

\*Management contract or compensatory plan or arrangement.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROCKWELL AUTOMATION, INC.  
(Registrant)

Date: February 6, 2008

By: /s/ THEODORE D. CRANDALL  
Theodore D. Crandall  
  
Senior Vice President and  
  
Chief Financial Officer  
  
(Principal Financial Officer)

Date: February 6, 2008

By: /s/ DAVID M. DORGAN  
David M. Dorgan  
  
Vice President and Controller  
  
(Principal Accounting Officer)



**Table of Contents**

**INDEX TO EXHIBITS**

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