ROCKWELL AUTOMATION INC
Form 10-Q
August 05, 2010

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UNITED STATES<br>SECURITIES AND EXCHANGE COMMISSION<br>Washington, D.C. 20549<br>FORM 10-Q<br>QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)<br>OF THE SECURITIES EXCHANGE ACT OF 1934<br>For the Quarterly Period Ended June 30, 2010<br>Commission file number 1-12383<br>Rockwell Automation, Inc.<br>(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

25-1797617
(I.R.S. Employer

Identification No.)

1201 South Second Street, Milwaukee, Wisconsin 53204
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code (414) 382-2000
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes p No o Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes b No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer p Accelerated Filer o Non-accelerated Filer o Smaller Reporting Company o Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No b
141,857,068 shares of registrant s Common Stock, \$1.00 par value, were outstanding on June 30, 2010.

## ROCKWELL AUTOMATION, INC.

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## PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
ROCKWELL AUTOMATION, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)
(in millions)

|  | June 30, <br> 2010 | September 30, <br> 2009 |  |  |
| :--- | :---: | ---: | ---: | ---: |
| Current assets: | ASSETS |  |  |  |
| Cash and cash equivalents |  | $\$ 826.0$ | $\$$ | 643.8 |
| Receivables | 826.4 | 726.3 |  |  |
| Inventories | 576.5 | 436.4 |  |  |
| Deferred income taxes | 164.0 | 174.4 |  |  |
| Other current assets | 125.7 | 153.9 |  |  |


| Total current assets | 2,518.6 $2,134.8$ |
| :--- | :--- |

Property, net ..... 513.0 ..... 532.5
Goodwill879.4913.2
Other intangible assets, net ..... 216.9 ..... 230.9
Deferred income taxes ..... 303.5 ..... 307.6
Prepaid pension ..... 30.9 ..... 30.7
Other assets ..... 152.2 ..... 156.0
TOTAL\$ 4,614.5 \$ 4,305.7
LIABILITIES AND SHAREOWNERS EQUITY
Current liabilities:
Accounts payable ..... \$ 398.4 \$ ..... 313.3
Compensation and benefits ..... 265.9 ..... 148.9
Advance payments from customers and deferred revenue 191.6 ..... 159.1
Customer returns, rebates and incentives 120.3 ..... 107.3
Other current liabilities ..... 250.5 ..... 218.6
Total current liabilities ..... 1,226.7 ..... 947.2
Long-term debt ..... 904.8 ..... 904.7
Retirement benefits 850.6 ..... 848.9
Other liabilities ..... 256.4 ..... 288.5

Commitments and contingent liabilities (Note 13)
Shareowners equity:

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See Notes to Condensed Consolidated Financial Statements.

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

|  | Three Months Ended June 30, |  |  |  | Nine Months Ended June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 2010 |  | 2009 |  | 2010 |  | 2009 |
| Sales |  |  |  |  |  |  |  |  |
| Products and solutions | \$ | 1,128.6 | \$ | 906.0 | \$ | 3,127.0 | \$ | 2,925.4 |
| Services |  | 139.5 |  | 104.8 |  | 373.1 |  | 332.7 |
|  |  | 1,268.1 |  | 1,010.8 |  | 3,500.1 |  | 3,258.1 |
| Cost of sales |  |  |  |  |  |  |  |  |
| Products and solutionsServices |  | (663.8) |  | (570.7) |  | $(1,836.2)$ |  | $(1,819.6)$ |
|  |  | (97.0) |  | (69.9) |  | (256.7) |  | (234.3) |
|  |  | (760.8) |  | (640.6) |  | $(2,092.9)$ |  | (2,053.9) |
| Gross profit |  | 507.3 |  | 370.2 |  | 1,407.2 |  | 1,204.2 |
| Selling, general and administrative expenses |  | (333.3) |  | (305.0) |  | (969.0) |  | (911.2) |
| Other (expense) income |  | (3.7) |  | 0.4 |  | (6.5) |  | (2.2) |
| Interest expense |  | (14.8) |  | (15.4) |  | (45.3) |  | (45.7) |

Income from continuing operations before income
taxes
Income tax provisio
155.5
(36.1)
119.4
32.8
50.2
(17.4)


Income from discontinued operations, net of tax

Net income

Basic earnings per share:

| Continuing operations | $\$$ | 0.84 | $\$$ | 0.23 | $\$$ | 2.17 | $\$$ | 1.33 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Discontinued operations |  |  |  |  |  | 0.17 |  | 0.02 |

$\begin{array}{lllllllll}\text { Net income } & \$ & 0.84 & \$ & 0.23 & \$ & 2.34 & \$ & 1.35\end{array}$

Diluted earnings per share:

| Continuing operations | $\$$ | 0.83 | $\$$ | 0.23 | $\$$ | 2.14 | $\$$ | 1.33 |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Discontinued operations |  |  |  |  |  |  |  |  |$\quad$| 0.02 |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Net income | $\$$ | 0.83 | $\$$ | 0.23 | $\$$ |
|  |  |  |  |  | 2.31 |
| Cash dividends per share | $\$$ | 0.64 | $\$$ | 0.58 | $\$$ |

## Weighted average outstanding shares:

Basic
Diluted
142.0
144.3
142.3
142.1
144.1
141.6
142.1

See Notes to Condensed Consolidated Financial Statements.

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

| Nine Months Ended |  |
| :---: | :---: |
| June 30, |  |
| 2010 | 2009 |

## Continuing Operations:

Operating Activities:

| Net income | \$ | 333.0 | \$ | 191.8 |
| :---: | :---: | :---: | :---: | :---: |
| Income from discontinued operations |  | (23.9) |  | (2.8) |
| Income from continuing operations |  | 309.1 |  | 189.0 |
| Adjustments to arrive at cash provided by operating activities: |  |  |  |  |
| Depreciation |  | 71.0 |  | 74.4 |
| Amortization of intangible assets |  | 23.2 |  | 24.4 |
| Share-based compensation expense |  | 27.1 |  | 20.0 |
| Retirement benefits expense |  | 66.6 |  | 36.4 |
| Pension trust contributions |  | (21.9) |  | (22.7) |
| Net loss on disposition of property |  | 1.7 |  | 1.5 |
| Income tax benefit from the exercise of stock options |  | 0.5 |  |  |
| Excess income tax benefit from share-based compensation |  | (12.3) |  | (1.3) |
| Changes in assets and liabilities, excluding effects of foreign currency adjustments: |  |  |  |  |
| Receivables |  | (134.7) |  | 196.5 |
| Inventories |  | (151.6) |  | 99.7 |
| Accounts payable |  | 88.5 |  | (123.8) |
| Compensation and benefits |  | 115.0 |  | (56.8) |
| Income taxes |  | 22.2 |  | (5.8) |
| Other assets and liabilities |  | 29.0 |  | (22.9) |
| Cash Provided by Operating Activities |  | 433.4 |  | 408.6 |
| Investing Activities: |  |  |  |  |
| Capital expenditures |  | (54.2) |  | (67.5) |
| Acquisition of businesses, net of cash acquired |  |  |  | (30.1) |
| Proceeds from sale of property and short-term investments |  | 4.5 |  | 3.0 |
| Purchase of short-term investments |  |  |  | (8.4) |
| Other investing activities |  |  |  | (4.1) |
| Cash Used for Investing Activities |  | (49.7) |  | (107.1) |

## Financing Activities:



See Notes to Condensed Consolidated Financial Statements.

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

## 1. Basis of Presentation and Accounting Policies

In the opinion of management of Rockwell Automation, Inc. (the Company or Rockwell Automation), the unaudited Condensed Consolidated Financial Statements contain all adjustments necessary to present fairly the financial position, results of operations, and cash flows for the periods presented, and except as otherwise indicated, such adjustments consist only of those of a normal recurring nature. These statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 30, 2009. The results of operations for the three and nine month periods ended June 30, 2010 are not necessarily indicative of the results for the full year. All date references to years and quarters herein refer to our fiscal year and fiscal quarter unless otherwise stated.
Receivables
Receivables are stated net of allowances for doubtful accounts of $\$ 18.6$ million at June 30, 2010 and $\$ 21.8$ million at September 30, 2009. In addition, receivables are stated net of an allowance for certain customer returns, rebates and incentives of $\$ 11.5$ million at June 30, 2010 and $\$ 8.8$ million at September 30, 2009.

## Earnings Per Share

Beginning in fiscal 2010, we changed our accounting for earnings per share (EPS) as a result of new accounting guidance issued by the Financial Accounting Standards Board (FASB). The guidance requires unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, to be treated as participating securities and included in the computation of earnings per share pursuant to the two-class method. Our participating securities are composed of unvested restricted stock and non-employee director restricted stock units.

## ROCKWELL AUTOMATION, INC. <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

We present basic and diluted EPS amounts. Basic EPS is calculated by dividing earnings available to common shareowners, which is income excluding the allocation to participating securities, by the weighted average number of common shares outstanding during the applicable period. Diluted EPS amounts are based upon the weighted average number of common and common equivalent shares outstanding during the applicable period. The difference between basic and diluted EPS is attributable to share-based compensation awards. We use the treasury stock method to calculate the effect of outstanding share-based compensation awards, which requires us to compute total employee proceeds as the sum of (a) the amount the employee must pay upon exercise of the award, (b) the amount of unearned share-based compensation costs attributed to future services and (c) the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of the award. Share-based compensation awards for which the total employee proceeds exceed the average market price over the applicable period have an antidilutive effect on EPS, and accordingly, we exclude them from the calculation of diluted EPS. For the three and nine months ended June 30, 2010, share-based compensation awards of 3.7 million and 5.0 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive. For the three and nine months ended June 30, 2009, share-based compensation awards of 7.8 million and 8.3 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive.
The following table reconciles basic and diluted EPS amounts (in millions, except per share amounts):

|  | Three Months Ended June 30, |  |  |  | Nine Months Ended June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2010 |  | 2009 |  | 2010 |  | 2009 |  |
| Income from continuing operations Less: Allocation to participating securities | \$ | $\begin{array}{r} 119.4 \\ (0.3) \end{array}$ | \$ | $\begin{gathered} 32.8 \\ (0.1) \end{gathered}$ | \$ | $\begin{array}{r} 309.1 \\ (0.7) \end{array}$ | \$ | $\begin{array}{r} 189.0 \\ (0.3) \end{array}$ |
| Income from continuing operations available to common shareowners | \$ | 119.1 | \$ | 32.7 | \$ | 308.4 | \$ | 188.7 |
| Income from discontinued operations Less: Allocation to participating securities | \$ |  | \$ |  | \$ | $\begin{gathered} 23.9 \\ (0.1) \end{gathered}$ | \$ | 2.8 |
| Income from discontinued operations available to common shareowners | \$ |  | \$ |  | \$ | 23.8 | \$ | 2.8 |
| Net income | \$ | 119.4 | \$ | 32.8 | \$ | 333.0 | \$ | 191.8 |
| Less: Allocation to participating securities |  | (0.3) |  | (0.1) |  | (0.8) |  | (0.3) |
| Net income available to common shareowners | \$ | 119.1 | \$ | 32.7 | \$ | 332.2 | \$ | 191.5 |
| Basic weighted average outstanding shares |  | 142.0 |  | 141.7 |  | 142.1 |  | 141.6 |
| Effect of dilutive securities |  |  |  |  |  |  |  |  |
| Stock options |  | 1.9 |  | 0.6 |  | 1.7 |  | 0.5 |
| Performance shares |  | 0.4 |  |  |  | 0.3 |  |  |


| Diluted weighted average outstanding shares | 144.3 |  | 142.3 |  | 144.1 |  | 142.1 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Basic earnings per share: |  |  |  |  |  |  |  |  |
| Continuing operations | \$ | 0.84 | \$ | 0.23 | \$ | 2.17 | \$ | 1.33 |
| Discontinued operations |  |  |  |  |  | 0.17 |  | 0.02 |
| Net income | \$ | 0.84 | \$ | 0.23 | \$ | 2.34 | \$ | 1.35 |
| Diluted earnings per share: |  |  |  |  |  |  |  |  |
| Continuing operations | \$ | 0.83 | \$ | 0.23 | \$ | 2.14 | \$ | 1.33 |
| Discontinued operations |  |  |  |  |  | 0.17 |  | 0.02 |
| Net income | \$ | 0.83 | \$ | 0.23 | \$ | 2.31 | \$ | 1.35 |
| 6 |  |  |  |  |  |  |  |  |

# ROCKWELL AUTOMATION, INC. <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS <br> (Unaudited) 

## 2. Share-Based Compensation

We recognized $\$ 9.2$ million and $\$ 27.1$ million pre-tax share-based compensation expense during the three and nine months ended June 30, 2010, respectively. We recognized $\$ 7.7$ million and $\$ 20.0$ million pre-tax share-based compensation expense during the three and nine months ended June 30, 2009, respectively.
Our annual grant of share-based compensation takes place during the first quarter of each fiscal year. The number of shares granted to all employees and non-employee directors and the weighted average fair value per share during the periods presented was (in thousands except per share amounts):

|  | Nine Months Ended June 30, |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2010 |  |  | 2009 |  |  |
|  |  | Wtd. Avg. Share |  |  | Wtd. Avg. Share |  |
|  | Grants |  | Value | Grants |  | Value |
| Stock options | 2,169 | \$ | 13.59 | 2,802 | \$ | 7.75 |
| Performance shares | 146 |  | 54.81 | 192 |  | 31.82 |
| Restricted stock and restricted stock units | 146 |  | 43.66 | 92 |  | 29.38 |
| Unrestricted stock | 11 |  | 44.20 | 16 |  | 34.82 |

## 3. Acquisitions

In January 2009, we acquired the assets and assumed certain liabilities of Xi an Hengsheng Science \& Technology Company Limited (Hengsheng). Hengsheng delivers automation solutions to the electrical power and other heavy process industries in central and western China. In March 2009, we acquired a majority of the assets and assumed certain liabilities of the automation business of Rutter Hinz Inc. (Hinz). Hinz offers industrial control systems engineering and related support, with domain expertise in industrial automation, process control and power distribution, specifically for the oil and gas industry, as well as other resource-based industries, in Canada. We recorded goodwill of $\$ 13.6$ million, customer relationships of $\$ 6.3$ million ( 10 -year weighted average useful life), technology of $\$ 1.2$ million (8-year weighted average useful life) and other intangible assets of $\$ 1.3$ million (4-year weighted average useful life) resulting from the final purchase price allocations of Hengsheng and Hinz. We expect $\$ 5.9$ million of the goodwill to be deductible for tax purposes.
We assigned the full amount of goodwill for Hengsheng and Hinz to our Control Products \& Solutions segment. The results of operations of the acquired businesses have been included in our Condensed Consolidated Statement of Operations since the dates of acquisition. Pro forma financial information and allocation of the purchase price are not presented as the individual effects of these acquisitions are not material to our results of operations and financial position.

## 4. Inventories

Inventories consist of (in millions):

|  | June 30, | September 30, |  |
| :--- | ---: | ---: | ---: |
|  | 2010 | 2009 |  |
| Finished goods | $\$$ | 220.1 | $\$$ |
| Work in process | 140.3 | 166.4 |  |
| Raw materials, parts and supplies | 216.1 | 109.1 |  |
|  |  |  |  |
| Inventories | $\$$ | 576.5 | $\$$ |

We report inventories net of the allowance for excess and obsolete inventory of $\$ 51.2$ million at June 30, 2010 and $\$ 53.2$ million at September 30, 2009.

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## ROCKWELL AUTOMATION, INC. <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

5. Property

Property consists of (in millions):

|  | June 30, 2010 |  | $\begin{gathered} \text { September 30, } \\ 2009 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Land | \$ | 4.8 | \$ | 4.7 |
| Buildings and improvements |  | 274.9 |  | 276.7 |
| Machinery and equipment |  | 1,060.6 |  | 1,116.4 |
| Internal-use software |  | 346.3 |  | 324.8 |
| Construction in progress |  | 42.0 |  | 36.5 |
| Total |  | 1,728.6 |  | 1,759.1 |
| Less accumulated depreciation |  | (1,215.6) |  | $(1,226.6)$ |
| Property, net | \$ | 513.0 | \$ | 532.5 |

## 6. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended June 30, 2010 are (in millions):

|  | Architecture \& Software |  | Control <br> Products \& Solutions |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance as of September 30, 2009 Translation and other | \$ | $\begin{array}{r} 386.8 \\ (7.7) \end{array}$ | \$ | $\begin{gathered} 526.4 \\ (26.1) \end{gathered}$ | \$ | $\begin{gathered} 913.2 \\ (33.8) \end{gathered}$ |
| Balance as of June 30, 2010 | \$ | 379.1 | \$ | 500.3 | \$ | 879.4 |

Other intangible assets consist of (in millions):

|  | June 30, 2010 <br> Accumulated <br> Amortization |  |  |  |
| :--- | ---: | ---: | ---: | ---: |
| Amorying | Net |  |  |  |
| Amount |  |  |  |  | |  |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: |
| Computer software products | $\$$ | 156.7 | $\$$ | 103.5 |
| Customer relationships | 56.3 | $\$ 3.3$ | 53.2 |  |
| Technology | 82.2 | 36.0 | 43.0 |  |
| Trademarks | 30.8 | 6.4 | 24.4 |  |
| Other | 22.7 | 16.3 | 6.4 |  |
|  |  |  | 175.5 | 173.2 |
| Total amortized intangible assets | 348.7 |  | 43.7 |  |

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Total
$\begin{array}{llllll}\$ & 392.4 & \$ & 175.5 & \$ & 216.9\end{array}$

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## ROCKWELL AUTOMATION, INC. <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## 6. Goodwill and Other Intangible Assets (Continued)

|  | September 30, 2009 |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Carrying <br> Amount |  | Accumulated Amortization |  | Net |  |
| Amortized intangible assets: |  |  |  |  |  |  |
| Computer software products | \$ | 140.9 | \$ | 93.7 | \$ | 47.2 |
| Customer relationships |  | 59.8 |  | 10.8 |  | 49.0 |
| Technology |  | 84.2 |  | 32.0 |  | 52.2 |
| Trademarks |  | 9.4 |  | 4.2 |  | 5.2 |
| Other |  | 24.3 |  | 14.2 |  | 10.1 |
| Total amortized intangible assets |  | 318.6 |  | 154.9 |  | 163.7 |
| Intangible assets not subject to amortization |  | 67.2 |  |  |  | 67.2 |
| Total | \$ | 385.8 | \$ | 154.9 | \$ | 230.9 |

The Allen-Bradley ${ }^{\circledR}$ trademark has an indefinite life, and therefore is not subject to amortization. During the second quarter of fiscal 2010, it was determined that the ICS Triplex ${ }^{\mathrm{TM}}$ trademark no longer has an indefinite life, and on January 1, 2010, we began amortizing the asset over its estimated useful life of 10 years using the straight-line method.
Estimated amortization expense is $\$ 32.6$ million in 2010, $\$ 31.1$ million in 2011, $\$ 27.4$ million in 2012, $\$ 20.9$ million in 2013 and $\$ 16.2$ million in 2014.
We performed the annual evaluation of our goodwill and indefinite life intangible assets for impairment as required by accounting principles generally accepted in the United States (U.S. GAAP) during the second quarter of 2010 and concluded that none of these assets is impaired. We did not identify any impairment indicators during the third quarter of 2010 that would require further impairment analysis.

## 7. Other Current Liabilities

Other current liabilities consist of (in millions):

|  | June 30, <br> 2010 | September 30, <br> 2009 |  |
| :--- | ---: | ---: | ---: |
|  |  |  | 19.1 |
| Unrealized losses on foreign exchange contracts | $\$$ | 26.0 | $\$$ |
| Product warranty obligations | 36.2 | 32.1 |  |
| Taxes other than income taxes | 29.2 | 30.3 |  |
| Accrued interest | 15.0 | 15.6 |  |
| Dividends payable | 49.7 |  |  |
| Restructuring and special items | 15.3 | 60.8 |  |
| Income taxes payable | 25.8 |  |  |
| Other | 53.3 |  |  |
|  |  |  |  |
|  | $\$ 0.7$ |  |  |
| Other current liabilities | $\$$ | 250.5 | $\$$ |

## 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 Original Equipment Manufacturer (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.

# ROCKWELL AUTOMATION, INC. <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) 

## 8. Product Warranty Obligations (Continued)

Changes in the product warranty obligations for the nine months ended June 30, 2010 and 2009 are (in millions):
Balance at beginning of period $\quad \$ \quad 32.1 \quad \$ \quad 33.5$

Warranties recorded at time of sale
30.6
20.9

Adjustments to pre-existing warranties (1.2)
Settlements of warranty claims
(25.3)
Nine Months Ended
June 30,
$2010 \quad 2009$

Balance at end of period

## 9. Long-term Debt

Long-term debt consists of (in millions):

|  | $\begin{gathered} \text { June } 30, \\ 2010 \end{gathered}$ |  | $\begin{gathered} \text { September 30, } \\ 2009 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| $5.65 \%$ notes, payable in 2017 | \$ | 250.0 | \$ | 250.0 |
| 6.70\% debentures, payable in 2028 |  | 250.0 |  | 250.0 |
| 6.25\% debentures, payable in 2037 |  | 250.0 |  | 250.0 |
| $5.20 \%$ debentures, payable in 2098 |  | 200.0 |  | 200.0 |
| Unamortized discount and other |  | (45.2) |  | (45.3) |
| Long-term debt | \$ | 904.8 | \$ | 904.7 |

On March 16, 2009, we replaced our former five-year $\$ 600.0$ million unsecured revolving credit facility with two new unsecured revolving credit facilities totaling $\$ 535.0$ million, each with an individual borrowing limit of $\$ 267.5$ million. One facility has a three-year term and the other facility had a 364 -day term. On March 15, 2010, we replaced our former 364-day $\$ 267.5$ million unsecured revolving credit facility with a new 364 -day $\$ 300.0$ million unsecured revolving credit facility, increasing our current borrowing capacity under the two facilities to $\$ 567.5$ million. The new credit facility includes a term-out option that allows us to borrow, on March 14, 2011, up to $\$ 300.0$ million as a term loan for one year. We have not drawn down under any of these credit facilities at June 30, 2010 or September 30, 2009. Borrowings under these credit facilities bear interest based on short-term money market rates in effect during the period the borrowings are outstanding. The terms of these credit facilities 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 these credit facilities at June 30, 2010 and September 30, 2009. Separate short-term unsecured credit facilities of approximately $\$ 129.5$ million at June 30, 2010 were available to non-U.S. 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 and nine months ended June 30, 2010 and 2009 were not significant.

# ROCKWELL AUTOMATION, INC. <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 

(Unaudited)

## 10. Derivative Instruments and Fair Value Measurement

We use foreign currency forward exchange contracts to manage certain foreign currency risks. We enter into these contracts to offset changes in the amount of future cash flows associated with certain third-party and intercompany transactions denominated in foreign currencies expected to occur within the next two years (cash flow hedges). Certain of our locations have assets and liabilities denominated in currencies other than their functional currencies resulting from intercompany loans and other transactions with third parties denominated in foreign currencies. We also enter into foreign currency forward exchange contracts that we do not designate as hedging instruments to offset the transaction gains or losses associated with some of these assets and liabilities.
We value our forward exchange contracts using a market approach. We use an internally developed valuation model based on inputs including forward and spot prices for currency and interest rate curves. We have not changed our valuation techniques during the nine months ended June 30, 2010. The notional values of our forward exchange contracts outstanding at June 30,2010 were $\$ 674.3$ million, of which $\$ 348.8$ million were designated as cash flow hedges. Contracts with the most significant notional values relate to transactions denominated in the United States dollar, British pound sterling and euro.
U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. U.S. GAAP also classifies the inputs used to measure fair value into the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.
Assets and liabilities measured at fair value on a recurring basis and their location in our Condensed Consolidated Balance Sheet were (in millions):


Forward exchange contracts
Forward exchange contracts
Forward exchange contracts
Forward exchange contracts

Total
Other current assets
\$ 18.0 \$ 20.9
Other assets 9.7
Other current liabilities (19.9) (6.9)
Other liabilities
\$ (1.9) \$ 17.9

## ROCKWELL AUTOMATION, INC. <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS <br> (Unaudited)

10. Derivative Instruments and Fair Value Measurement (Continued)

The pre-tax amount of gains (losses) recorded in other comprehensive (loss) income related to forward exchange contracts designated as cash flow hedges that would have been recorded in the Condensed Consolidated Statement of Operations had they not been so designated as cash flow hedges was (in millions):
Three Months Ended
June 30,
$2010 \quad 2009$
Nine Months Ended
June 30,
$2010 \quad 2009$
$\begin{array}{lccccccc}\text { Forward exchange contracts } & \$ & 9.7 & \$ & (8.7) & \$ & 18.3 & \$\end{array} 17.0$ will be reclassified into earnings during the next 12 months. We expect that these net unrealized gains will be offset when the hedged items are recognized in earnings.
The pre-tax amount of (losses) gains reclassified from accumulated other comprehensive loss into the Condensed Consolidated Statement of Operations related to derivative forward exchange contracts designated as cash flow hedges, which offset the related gains and losses on the hedged items during the periods presented was:

|  | Three Months Ended June 30, |  |  |  | Nine Months Ended June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2010 |  | 2009 |  | 2010 |  | 2009 |  |
| Sales | \$ | (0.8) | \$ | 1.7 | \$ | (1.5) | \$ | 5.4 |
| Cost of sales |  | 0.7 |  | (1.4) |  | (4.4) |  | (1.2) |
| Total | \$ | (0.1) | \$ | 0.3 | \$ | (5.9) | \$ | 4.2 |

The amount recognized in earnings as a result of ineffective cash flow hedges was not significant. The pre-tax amount of (losses) gains from forward exchange contracts not designated as hedging instruments recognized in the Condensed Consolidated Statement of Operations during the periods presented was:

|  | Three Months Ended June 30, |  |  |  | Nine Months Ended June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2010 |  | 2009 |  | 2010 |  | 2009 |  |
| Other (expense) income Cost of sales | \$ | (2.8) | \$ | (9.6) | \$ | (22.6) | \$ | $\begin{gathered} 7.8 \\ (0.1) \end{gathered}$ |
| Total | \$ | (2.8) | \$ | (9.6) | \$ | (22.6) | \$ | 7.7 |

We also hold financial instruments consisting of cash, accounts receivable, accounts payable and long-term debt. The carrying value of our cash, accounts receivable and accounts payable as reported in our Condensed Consolidated Balance Sheet approximates fair value. We base the fair value of long-term debt upon quoted market prices for the same or similar issues. The following is a summary of the carrying value and fair value of our long-term debt (in millions):

|  | June 30, 2010 |  | September 30, 2009 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Carrying <br> Value | Fair <br> Value | Carrying <br> Value |  | Fair <br> Value |
| Long-term debt | \$ 904.8 | \$ 1,043.5 | \$ 904.7 | \$ | 992.0 |

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

## 11. Retirement Benefits

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

|  | Pension Benefits |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Three Months Ended June 30, |  |  |  | Nine Months Ended June 30, |  |  |  |
|  | 2010 |  | 2009 |  | 2010 |  | 2009 |  |
| Service cost | \$ | 19.3 | \$ | 14.9 | \$ | 51.9 | \$ | 42.5 |
| Interest cost |  | 40.0 |  | 40.4 |  | 119.8 |  | 117.0 |
| Expected return on plan assets |  | (48.1) |  | (49.8) |  | (144.1) |  | (144.7) |
| Amortization: |  |  |  |  |  |  |  |  |
| Prior service cost |  | (1.1) |  | (1.1) |  | (3.2) |  | (3.4) |
| Net transition obligation |  |  |  | 0.1 |  |  |  | 0.3 |
| Net actuarial loss |  | 10.6 |  | 4.4 |  | 31.6 |  | 12.7 |
| Net periodic benefit cost | \$ | 20.7 | \$ | 8.9 | \$ | 56.0 | \$ | 24.4 |
|  | Other Postretirement Benefits |  |  |  |  |  |  |  |
|  | Three Months Ended June 30, |  |  |  | Nine Months Ended June 30, |  |  |  |
|  |  | 2010 | 2009 |  | 2010 |  | 2009 |  |
| Service cost | \$ | 0.9 | \$ | 1.0 | \$ | 2.8 | \$ | 2.8 |
| Interest cost |  | 3.1 |  | 3.4 |  | 9.4 |  | 10.0 |
| Amortization: |  |  |  |  |  |  |  |  |
| Prior service cost |  | (2.6) |  | (2.7) |  | (7.9) |  | (7.9) |
| Net actuarial loss |  | 2.1 |  | 2.4 |  | 6.3 |  | 7.1 |
| Net periodic benefit cost | \$ | 3.5 | \$ | 4.1 | \$ | 10.6 | \$ | 12.0 |
| 12. Comprehensive Income Comprehensive income consists of (in millions): |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  | Three Months Ended June 30, |  |  |  | Nine Months Ended June 30, |  |  |  |
|  |  | 2010 | 2009 |  | 2010 |  | 2009 |  |
| Net income | \$ | 119.4 | \$ | 32.8 | \$ | 333.0 | \$ | 191.8 |
| Other comprehensive (loss) income: |  |  |  |  |  |  |  |  |
| Unrecognized pension and postretirement benefit plan liabilities |  | 4.3 |  | 1.4 |  | 12.9 |  | 4.2 |
| Currency translation adjustments |  | (41.2) |  | 64.4 |  | (101.0) |  | (96.7) |


| Net unrealized gains (losses) on cash flow hedges |  | 6.1 |  | (5.7) |  | 15.1 |  | 7.8 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Other |  |  |  | 0.1 |  | 0.1 |  | 0.2 |
| Other comprehensive (loss) income |  | (30.8) |  | 60.2 |  | (72.9) |  | (84.5) |
| Comprehensive income | \$ | 88.6 | \$ | 93.0 | \$ | 260.1 | \$ | 107.3 |

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

## 13. 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, 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.
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 former Dodge mechanical and Reliance Electric motors and motor repair services businesses prior to their divestiture by us, which occurred on January 31, 2007. We are also responsible for half of the costs and liabilities associated with asbestos cases against the former 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 claims arising from our former Allen-Bradley subsidiary. Following litigation against Nationwide Indemnity Company and Kemper Insurance, the insurance carriers that provided liability insurance coverage to Allen-Bradley, we entered into separate agreements on April 1, 2008 with both insurance carriers to further resolve responsibility for ongoing and future coverage of Allen-Bradley asbestos claims. In exchange for a lump sum payment, Kemper bought out its remaining liability and has been released from further insurance obligations to Allen-Bradley. Nationwide administers the Kemper buyout funds and has entered into a cost share agreement to pay the substantial majority of future defense and indemnity costs for Allen-Bradley asbestos claims once the Kemper buy-out funds are depleted. We believe that these arrangements will continue to provide coverage for Allen-Bradley asbestos claims throughout the remaining life of the asbestos liability.
The uncertainties of asbestos claim litigation 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.
We have, from time to time, divested certain of our businesses. In connection with these divestitures, certain lawsuits, claims and proceedings may be instituted or asserted against us related to the period that we owned the businesses, either because we agreed to retain certain liabilities related to these periods or because such liabilities fall upon us by operation of law. In some instances, the divested business has assumed the liabilities; however, it is possible that we might be responsible to satisfy those liabilities if the divested business is unable to do so.
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 spin-offs 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 the purchaser, Baldor Electric Company (Baldor), for costs and damages related to
certain legal, legacy environmental and asbestos matters of these businesses, including certain damages pertaining to the Foreign Corrupt Practices Act, arising before January 31, 2007, for which the maximum exposure would be capped at the amount received for the sale.

## ROCKWELL AUTOMATION, INC. <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS <br> (Unaudited) <br> 13. Commitments and Contingent Liabilities (Continued)

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.

## 14. Income Taxes

At the end of each interim period, we estimate a base effective tax rate that we expect for the full fiscal year based on our most recent forecast of pretax income, permanent book and tax differences and global tax planning strategies. We use this base rate to provide for income taxes on a year-to-date basis, excluding the effect of significant unusual or extraordinary items and items that are reported net of their related tax effects. We record the tax effect of significant unusual or extraordinary items and items that are reported net of their tax effects in the period in which they occur.
The effective tax rate for the nine months ended June 30,2010 was 20.0 percent. The effective rate was lower than the U.S. statutory rate of 35 percent because we benefited from lower non-U.S. tax rates and discrete tax benefits of $\$ 14.6$ million related to the favorable resolution of tax matters. This was partially offset by discrete tax expenses of $\$ 6.7$ million primarily related to the impact of a change in Mexican tax law and interest related to unrecognized tax benefits.
Gross unrecognized tax benefits and offsetting tax benefits were (in millions):
June 30, 2010
Gross
Unrecognized Offsetting
Tax
Benefits Tax Benefits Net
Amounts that would reduce tax provision:
Continuing operations
Discontinued operations
Total

|  |  |  |  |  |  |
| :--- | ---: | :--- | ---: | ---: | ---: |
| $\$$ | 74.2 | $\$$ | $(52.4)$ | $\$$ | 21.8 |
|  | 8.8 |  | $(3.1)$ |  | 5.7 |
|  |  |  |  |  |  |
| $\$$ | 83.0 | $\$$ | $(55.5)$ | $\$$ | 27.5 |

September 30, 2009
Gross
Unrecognized Offsetting
Tax
Benefits Tax Benefits Net
Amounts that would reduce tax provision:

| Continuing operations | $\$$ | 85.2 | $\$$ | $(44.3)$ | $\$$ | 40.9 |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
| Discontinued operations |  | 31.5 |  | $(4.8)$ |  | 26.7 |
| Total | $\$$ | 116.7 | $\$$ | $(49.1)$ | $\$$ | 67.6 |

During the first nine months of 2010, the amount of unrecognized tax benefits decreased by $\$ 28.0$ million ( $\$ 26.9$ million net of offsetting tax benefits) as a result of the resolution of domestic and international tax matters. Of that amount, $\$ 21.1$ million ( $\$ 20.0$ million net of offsetting tax benefits) related to the discontinued Dodge mechanical and Reliance Electric motors and repair services businesses and did not impact continuing operations. During the next

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12 months we believe it is reasonably possible that the amount of unrecognized tax benefits could decrease by up to $\$ 23.6$ million and the amount of offsetting tax benefits could decrease by up to $\$ 11.3$ million as a result of the resolution of worldwide tax matters and the lapses of statutes of limitations.
We recognize interest and penalties related to tax matters in tax expense. Accrued interest and penalties were $\$ 25.2$ million and $\$ 1.8$ million at June 30, 2010 and $\$ 25.8$ million and $\$ 1.8$ million at September 30, 2009, respectively.
We conduct business globally and are routinely audited by the various tax jurisdictions in which we operate. Our U.S. federal tax returns for 2008 and 2009, Wisconsin tax returns for 2006 through 2009, and tax returns for other major states and foreign jurisdictions for 1998 through 2009 remain subject to examinations by taxing authorities.

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

## 15. Restructuring Charges and Special Items

The following table sets forth a summary of restructuring activities during the nine months ended June 30, 2010 (in millions):


We recorded the $\$ 6.3$ million accrual adjustments as a $\$ 3.3$ million benefit to selling, general and administrative expenses and a $\$ 3.0$ million benefit to cost of sales during the nine months ended June 30, 2010. During the three months ended June 30, 2010, we recorded $\$ 1.0$ million and $\$ 3.0$ million of benefits in selling, general and administrative expenses and cost of sales, respectively. We currently anticipate that the remaining accrual balance of $\$ 15.3$ million will be paid over the next 12 months.

# ROCKWELL AUTOMATION, INC. <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) 

## 16. Segment Information

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

|  | Three Months Ended June 30, |  |  |  | Nine Months Ended June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2010 |  | 2009 |  | 2010 |  | 2009 |  |
| Sales |  |  |  |  |  |  |  |  |
| Architecture \& Software | \$ | 553.9 | \$ | 399.5 | \$ | 1,539.1 | \$ | 1,299.4 |
| Control Products \& Solutions |  | 714.2 |  | 611.3 |  | 1,961.0 |  | 1,958.7 |
| Total | \$ | 1,268.1 | \$ | 1,010.8 | \$ | 3,500.1 | \$ | 3,258.1 |
| Segment Operating Earnings |  |  |  |  |  |  |  |  |
| Architecture \& Software | \$ | 125.4 | \$ | 43.3 | \$ | 347.0 | \$ | 186.1 |
| Control Products \& Solutions |  | 72.6 |  | 43.0 |  | 165.1 |  | 164.0 |
| Total |  | 198.0 |  | 86.3 |  | 512.1 |  | 350.1 |
| Purchase accounting depreciation and amortization |  | (4.6) |  | (4.4) |  | (14.2) |  | (14.2) |
| General corporate net |  | (23.1) |  | (16.3) |  | (66.2) |  | (49.1) |
| Interest expense |  | (14.8) |  | (15.4) |  | (45.3) |  | (45.7) |
| Special items |  |  |  |  |  |  |  | 4.0 |
| Income tax provision |  | (36.1) |  | (17.4) |  | (77.3) |  | (56.1) |
| Income from continuing operations | \$ | 119.4 | \$ | 32.8 | \$ | 309.1 | \$ | 189.0 |

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 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 recorded 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. We allocate costs incurred related to shared segment operating activities to the segments using a methodology consistent with the expected benefit.
In the United States and Canada, we sell our products primarily through independent distributors. We sell large systems and service offerings principally through a direct sales force, though opportunities are sometimes identified through distributors. Outside the United States and Canada, we sell products through a combination of direct sales and sales through distributors. Sales to our largest distributor in the three and nine months ended June 30, 2010 and 2009, were approximately 10 percent of our total sales.

## 17. Discontinued Operations

In the nine months ended June 30, 2010, we recorded a $\$ 21.3$ million tax benefit as a result of the resolution of a domestic tax matter relating to the January 2007 sale of our Dodge mechanical and Reliance Electric motors and repair services businesses. We also recorded a net $\$ 2.6$ million after-tax benefit relating to changes in estimate for environmental and legal matters of our divested businesses.

In the nine months ended June 30, 2009, we recorded a benefit of $\$ 4.5$ million ( $\$ 2.8$ million net of tax) related to a change in estimate for legal contingencies associated with RIC s operation of the Rocky Flats facility for the U.S. Department of Energy.

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## 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 June 30, 2010, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended June 30, 2010 and 2009, and cash flows for the nine-month periods ended June 30, 2010 and 2009. These condensed consolidated 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, 2009, and the related consolidated statements of operations, cash flows, shareowners equity and comprehensive (loss) income for the year then ended (not presented herein); and in our report dated November 18, 2009, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph relating to the change in method of accounting for uncertain tax positions on October 1, 2007 and the change in method of accounting for the Company s defined benefit pension and other postretirement benefit plans on September 30, 2007. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2009 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.
/s/ DELOITTE \& TOUCHE LLP
Milwaukee, Wisconsin
August 5, 2010

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## 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 other similar expressions may identify forward-looking st 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: macroeconomic factors, including global and regional business conditions, the availability and cost of capital, and the cyclical nature of our customers capital spending, all of which may affect demand for our offerings, and currency exchange rates;
laws, regulations and governmental policies affecting our activities in the countries where we do business; successful development of advanced technologies and demand for and market acceptance of new and existing products;
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 distribution channels;
the availability and price of components and materials;
successful execution of our cost productivity, restructuring and globalization initiatives; 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. See Item 1A, Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2009 for more information.

## 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.

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## ROCKWELL AUTOMATION, INC.

## Overview

We are a leading global provider of industrial automation power, control and information solutions that help manufacturers achieve a competitive advantage for their businesses. Overall demand for our products and services is driven by:
investments in manufacturing, including upgrades, modifications and expansions of existing facilities or production lines, and the creation of new facilities or production lines;
our customers needs for cost reduction, flexible manufacturing, sustainable production (cleaner, safer and more energy efficient), quality assurance and overall global competitiveness;
industry factors that include our customers new product introductions, demand for our customers products or services, and the regulatory and competitive environments in which our customers operate;
levels of global industrial production and capacity utilization;
regional factors that include local political, social, regulatory and economic circumstances;
the seasonal spending patterns of our customers due to their annual budgeting processes and their working schedules; and
investments in basic materials production capacity, partly in response to higher end-product pricing.

## Long-term Strategy

Our long-term strategic framework incorporates our vision of being the most valued global provider of innovative industrial automation and information products, services and solutions, and our growth and performance strategy, which seeks to:
diversify our revenue streams;
deploy human and financial resources to strengthen our technology leadership and allow us to continue to
transform our business model into one that is based less on tangible assets and more on intellectual capital;
capture a larger share of our customers spending and increase penetration at OEMs;
expand our served market by increasing our capabilities in new applications, including process
control, safety and information software;
enhance our market access by increasing our solutions and service capabilities, advancing our global
presence and delivering our products and solutions to a wider range of industries;
build our channel capability and partner network;
look for potential acquisitions that serve as catalysts to organic growth by adding complementary
technology, expanding our served market, increasing our domain expertise or continuing our geographic
diversification; and
continuously improve quality and customer experience, drive 3-4 percent annual cost productivity, and optimize end-to-end business processes.
By implementing the strategy above, we seek to achieve our long-term financial goals that include revenue growth of 6-8 percent, double-digit EPS growth and 60 percent of our revenue outside the U.S.

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## ROCKWELL AUTOMATION, INC.

## U.S. Industrial Economic Trends

In the third quarter of 2010, sales to U.S. customers accounted for 52 percent of our total sales. The various indicators we use to gauge the direction and momentum of our served U.S. markets include:

The Industrial Production Index (Total Index), published by the Federal Reserve, which measures the real output of manufacturing, mining, and electric and gas utilities. The Industrial Production Index is expressed as a percentage of real output in a base year, currently 2002. Historically there has been a meaningful correlation between the Industrial Production Index and the level of automation 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.
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. This measure over the longer term has proven to demonstrate a reasonable correlation with our domestic growth.
Capacity Utilization (Total Industry), which is an indication of plant operating activity published by the Federal Reserve. Historically there has been a meaningful correlation between Capacity Utilization and levels of U.S. industrial production.
The table below depicts the trends in these indicators since the quarter ended September 2008. The early part of the industrial recovery has been stronger than we expected. However, high unemployment and relatively low levels of capacity utilization continue to create uncertainty as to the future shape of the recovery.

|  | Industrial Production Index | PMI |  | strial <br> pment <br> ding <br> ilions) | Capacity Utilization (percent) |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Fiscal 2010 |  |  |  |  |  |
| Quarter ended: |  |  |  |  |  |
| June 2010 | 92.1 | 56.2 | \$ | 163.0 | 73.8 |
| March 2010 | 90.6 | 59.6 |  | 146.8 | 72.5 |
| December 2009 | 89.1 | 54.9 |  | 146.4 | 71.1 |
| Fiscal 2009 |  |  |  |  |  |
| Quarter ended: |  |  |  |  |  |
| September 2009 | 87.6 | 52.4 |  | 147.1 | 69.9 |
| June 2009 | 85.9 | 45.3 |  | 150.8 | 68.5 |
| March 2009 | 88.2 | 36.4 |  | 157.1 | 70.5 |
| December 2008 | 92.6 | 32.5 |  | 185.7 | 74.3 |
| Fiscal 2008 |  |  |  |  |  |
| Quarter ended: |  |  |  |  |  |
| September 2008 | 95.9 | 43.2 |  | 196.5 | 77.2 |

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

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## ROCKWELL AUTOMATION, INC.

## Non-U.S. Regional Trends

In the third quarter of 2010, sales to non-U.S. customers accounted for 48 percent of our total sales. These customers include both multinational companies with expanding global presence and indigenous companies. In addition to the global factors previously mentioned, international demand, particularly in emerging markets, has historically been driven by investments in infrastructure and expanding consumer markets.
We use changes in Gross Domestic Product (GDP) as one indicator of the growth opportunities in each region where we do business. GDP either declined or grew slowly in all regions during fiscal 2009, contributing to reduced customer demand. Signs indicating stabilization in global economic conditions in most regions began to appear in the fourth fiscal quarter of 2009 and continued into the first nine months of fiscal 2010. GDP growth in Asia-Pacific, particularly the emerging countries including China and India, continued to exceed the global average, while growth in the European region continues to be below average. GDP growth in Latin America increased during the third quarter of 2010. Continued improvement in the global economy seems to indicate that the recovery is taking hold.

## Revenue by Geographic Region

The table below presents our sales for the quarter ended June 30, 2010 by geographic region and the change in sales from the quarter ended June 30, 2009 (in millions, except percentages):

|  |  |  |  | Change in Organic Sales |
| :---: | :---: | :---: | :---: | :---: |
|  | Change vs. |  |  |  |
|  | ThreeMonths Ended |  | Three | vs. ThreeMonths Ended |
|  |  |  | Months Ended |  |
|  | June 30, |  |  | June 30, |
|  | 2010(1) |  | June 30, 2009 | 2009(2) |
| United States | \$ | 658.7 | 27\% | 27\% |
| Canada |  | 88.2 | 46\% | 30\% |
| Europe, Middle East and Africa |  | 240.3 | 10\% | 16\% |
| Asia-Pacific |  | 186.1 | 29\% | 23\% |
| Latin America |  | 94.8 | 39\% | 40\% |
| Total Sales | \$ | 1,268.1 | 25\% | 25\% |

The table below presents our sales for the nine months ended June 30, 2010 by geographic region and the change in sales from the nine months ended June 30, 2009 (in millions, except percentages):

(1) We attribute sales to the geographic regions based upon country of destination.
(2) Organic sales is a non-GAAP measure. See Supplemental Information for information on this non-GAAP measure.

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## ROCKWELL AUTOMATION, INC.

## Summary of Results of Operations

Sales in the third quarter of 2010 increased 25 percent compared to the third quarter of 2009. The year-over-year impact from currency translation was negligible for the quarter. Product sales grew 37 percent year over year reflecting improved maintenance repair \& operations (MRO), smaller capital projects, and OEM demand. Our solutions and services businesses grew by 6 percent year over year. Sequentially, sales increased 9 percent.
Sales in our Architecture \& Software segment increased 7 percent sequentially during the third quarter of 2010 compared to the second quarter of 2010, which is the fifth consecutive quarterly increase in sales for the segment. In our Control Products \& Solutions segment, sequential revenue increased 10 percent during the third quarter of 2010 compared to the second quarter of 2010. Asia-Pacific and Latin America were our best performing regions sequentially, as sales increased 13 percent each, compared to the second quarter of 2010.
As a consequence of the rapid and large declines in sales in fiscal 2009 due to the severe global recession, we took aggressive actions to adjust our cost structure, including restructuring actions that were implemented throughout 2009, temporary employee pay and benefit reductions and general reductions in discretionary spending. We expect to realize approximately $\$ 20$ million of additional savings during the remainder of 2010 compared to the same period in 2009 as a result of restructuring actions previously taken. During the nine months ended June 30, 2010, these actions contributed approximately $\$ 100$ million of benefit to our current year results, consistent with our expectations.
Our favorable results and improved outlook for the full year caused us to reverse our temporary employee pay and benefit actions effective January 1, 2010. We also implemented wage and salary increases for employees. As a result, we expect employee costs, which also include performance-based compensation, to increase by approximately $\$ 70$ million, and pension and postretirement expense to increase by approximately $\$ 10$ million in the fourth quarter of 2010 compared to the fourth quarter of 2009. In addition, we expect approximately $\$ 10$ million of incremental spending related to customer-facing resources, particularly in emerging markets, and innovation in our products, services and solutions offerings in the fourth quarter of 2010, compared to the third quarter of fiscal 2010. The incremental spending for these future growth initiatives in the third quarter of 2010 was approximately $\$ 20$ million higher than the second quarter of 2010.

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## ROCKWELL AUTOMATION, INC.

Summary of Results of Operations (Continued)
The following tables reflect the sales and operating results for the three and nine months ended June 30, 2010 and 2009 (in millions, except per share amounts):

|  | Three Months Ended June 30, |  |  |  | Nine Months Ended June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2010 |  | 2009 |  | 2010 |  | 2009 |  |
| Sales |  |  |  |  |  |  |  |  |
| Architecture \& Software | \$ | 553.9 | \$ | 399.5 | \$ | 1,539.1 | \$ | 1,299.4 |
| Control Products \& Solutions |  | 714.2 |  | 611.3 |  | 1,961.0 |  | 1,958.7 |
| Total | \$ | 1,268.1 | \$ | 1,010.8 | \$ | 3,500.1 | \$ | 3,258.1 |
| Segment Operating Earnings (a) |  |  |  |  |  |  |  |  |
| Architecture \& Software | \$ | 125.4 | \$ | 43.3 | \$ | 347.0 | \$ | 186.1 |
| Control Products \& Solutions |  | 72.6 |  | 43.0 |  | 165.1 |  | 164.0 |
| Purchase accounting depreciation and amortization |  | (4.6) |  | (4.4) |  | (14.2) |  | (14.2) |
| General corporate net |  | (23.1) |  | (16.3) |  | (66.2) |  | (49.1) |
| Interest expense |  | (14.8) |  | (15.4) |  | (45.3) |  | (45.7) |
| Special items |  |  |  |  |  |  |  | 4.0 |
| Income from continuing operations before income taxes |  | 155.5 |  | 50.2 |  | 386.4 |  | 245.1 |
| Income tax provision |  | (36.1) |  | (17.4) |  | (77.3) |  | (56.1) |
| Income from continuing operations |  | 119.4 |  | 32.8 |  | 309.1 |  | 189.0 |
| Discontinued operations, net of tax (b) |  |  |  |  |  | 23.9 |  | 2.8 |
| Net income | \$ | 119.4 | \$ | 32.8 | \$ | 333.0 | \$ | 191.8 |
| Diluted earnings per share: |  |  |  |  |  |  |  |  |
| Continuing operations | \$ | 0.83 | \$ | 0.23 | \$ | 2.14 | \$ | 1.33 |
| Discontinued operations |  |  |  |  |  | 0.17 |  | 0.02 |
| Net income | \$ | 0.83 | \$ | 0.23 | \$ | 2.31 | \$ | 1.35 |
| Diluted weighted average outstanding shares |  | 144.3 |  | 142.3 |  | 144.1 |  | 142.1 |

[^0]Consolidated
Financial
Statements for the definition of segment
operating earnings.
(b) See Note 17 in the Condensed Consolidated
Financial
Statements for a description of items reported as discontinued operations.

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## ROCKWELL AUTOMATION, INC.

## 2010 Third Quarter Compared to 2009 Third Quarter

(in millions, except per share amounts)

| 2010 | 2009 | Change |  |  |
| ---: | ---: | ---: | ---: | ---: |
| $\$$ | $1,268.1$ | $\$$ | $1,010.8$ | $\$$ |
| 155.5 |  | 50.2 |  | 257.3 |
|  |  |  | 105.3 |  |
| 0.83 |  | 0.23 |  | 0.60 |

Diluted earnings per share from continuing operations
0.83
0.23
0.60

## Sales

Our sales increased $\$ 257.3$ million, or 25 percent, from $\$ 1,010.8$ million in the third quarter of 2009 to $\$ 1,268.1$ million in the third quarter of 2010 . Organic sales increased 25 percent, substantially all of which was related to increases in volume due to recent macroeconomic trends in most regions, as the impact of pricing on revenues was insignificant. Restocking by our distributors was responsible for approximately 3 percentage points of the increase, in order to increase inventory levels to meet current demand.
We saw continued momentum in our product revenues with year-over-year growth of 37 percent. Our solutions and services businesses also contributed to the increase with year-over-year growth for the first time since the second quarter of fiscal 2009.
We had significant growth in the United States, Canada and the emerging markets in Latin America and Asia. Organic sales to customers in the United States and Canada increased 27 percent and 30 percent, respectively, as compared to the third quarter of 2009. Organic sales increased in Latin America by 40 percent. Organic sales increased 16 percent in Europe, Middle East and Africa (EMEA). Asia-Pacific had organic sales growth of 23 percent, led by strength in China, which had sales growth of 42 percent during the quarter.
In the third quarter of 2010, our largest year-over-year end market sales increases were to customers in the automotive and tire, mining, water and wastewater, and food and beverage industries.
Income from Continuing Operations before Income Taxes
Income from continuing operations before income taxes increased 210 percent from $\$ 50.2$ million in the third quarter of 2009 to $\$ 155.5$ million in the third quarter of 2010 . Our strong performance in the quarter reflects a continuing economic recovery. Gross profit margin increased by 3.4 points to 40.0 percent in the third quarter of 2010. Increased volume, restructuring savings and favorable mix contributed to the significant year-over-year margin improvement in the quarter, partially offset by cost increases related to employee compensation, pension and postretirement expense and incremental spending for future growth. Selling, general and administrative expense as a percentage of sales decreased by 3.9 points to 26.3 percent as volume increases outpaced spending increases, including the effect of employee compensation costs.
Our Architecture \& Software segment contributed 44 percent of our total sales during the third quarter of 2010, compared to 40 percent during the third quarter of 2009. During the third quarter of 2010, the Architecture \& Software segment s operating margin was 22.6 percent. The increase in percentage of sales by our higher-margin Architecture \& Software segment caused a positive mix effect.
In the third quarter of 2010, we saved approximately $\$ 20$ million as compared to the third quarter of 2009 related to benefits realized from restructuring actions taken in fiscal 2009, which was in line with our expectations. These benefits were offset by increases of approximately $\$ 65$ million for employee compensation, an $\$ 11$ million increase in pension and postretirement expense and $\$ 20$ million incremental spending for future growth in the third quarter of 2010 compared to the third quarter of 2009.

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## ROCKWELL AUTOMATION, INC.

## 2010 Third Quarter Compared to 2009 Third Quarter (Continued)

## Income Taxes

The effective tax rate for the third quarter of 2010 was 23.2 percent compared to 34.7 percent in the third quarter of 2009. The 2010 third quarter effective tax rate was lower than the 2009 third quarter rate because we recognized net discrete tax expenses of $\$ 1.0$ million in the third quarter of 2010 compared to discrete tax expenses of $\$ 9.0$ million in the third quarter of 2009 , primarily related to the sale of a non-U.S. subsidiary, partially offset by discrete tax benefits of $\$ 3.0$ million related to the resolution of various worldwide tax matters.
Architecture \& Software

| (in millions, except percentages) | 2010 |  | 2009 | Change |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Sales | $\$$ | 553.9 | $\$$ | 399.5 | $\$$ | 154.4 |
| Segment operating earnings |  | 125.4 |  | 43.3 |  | 82.1 |
| Segment operating margin | $22.6 \%$ |  | $10.8 \%$ | 11.8 pts |  |  |

## Sales

Architecture \& Software sales increased 39 percent to $\$ 553.9$ million in the third quarter of 2010 compared to $\$ 399.5$ million in the third quarter of 2009. Organic sales increased 38 percent. Substantially all of the organic sales increase resulted from increased volume due to recent macroeconomic trends in most regions and industries, as product pricing remained relatively stable. Canada and Latin America year-over-year sales increases were greater than the segment average rate of increase. Year-over-year sales increases to customers in the United States were near the segment average rate of increase, while year-over-year sales increases to customers in EMEA and Asia-Pacific were less than the segment average rate of increase. Logix sales increased 36 percent in the third quarter of 2010 compared to the third quarter of 2009.

## Operating Margin

Architecture \& Software segment operating earnings were $\$ 125.4$ million in the third quarter of 2010, up 190 percent from $\$ 43.3$ million in the same quarter of 2009 . Operating margin increased 11.8 points to 22.6 percent in the third quarter of 2010 as compared to the third quarter of 2009 . The increase was predominantly due to volume increases, as well as the impact of cost reductions, partially offset by cost increases related to employee compensation, pension and postretirement expense and incremental spending for future growth. Approximately half of the restructuring cost savings, additional employee compensation, additional pension and postretirement expenses and incremental spending for future growth described above applied to the Architecture \& Software segment.

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## ROCKWELL AUTOMATION, INC.

2010 Third Quarter Compared to 2009 Third Quarter (Continued)
Control Products \& Solutions
(in millions, except percentages)
Sales
$\begin{array}{llllll}\$ & 714.2 & \$ & 611.3 & \$ & 102.9\end{array}$
Segment operating earnings
72.6
10.2\%

2009 Change
43.0 29.6

Segment operating margin

## Sales

Control Products \& Solutions sales were $\$ 714.2$ million in the third quarter of 2010, up 17 percent from $\$ 611.3$ million in the third quarter of 2009. Organic sales increased 16 percent. The segment s organic sales increased primarily because the segment s product businesses grew at rates similar to our Architecture \& Software segment, while our solutions and services businesses grew by 6 percent year over year. Asia-Pacific, Latin America and Canada reported above average year-over-year overall segment growth. EMEA reported year-over-year overall segment sales declines, primarily due to declines in our solutions and services businesses that have been slower to recover compared to our product businesses. Pricing had only a minor impact on revenue during the period.

## Operating Margin

Control Products \& Solutions segment operating earnings were $\$ 72.6$ million in the third quarter of 2010, up 69 percent from $\$ 43.0$ million in the same quarter of 2009 . Operating margin increased by 3.2 points to 10.2 percent in the third quarter of 2010 as compared to 7.0 percent the second quarter of 2009 . The increase was primarily due to volume increases and cost reductions, partially offset by cost increases related to employee compensation, pension and postretirement expense and incremental spending for future growth. Approximately half of the restructuring cost savings, additional employee compensation, additional pension and postretirement expenses and incremental spending for future growth described above applied to the Control Products \& Solutions segment.

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## ROCKWELL AUTOMATION, INC.

## Nine Months Ended June 30, 2010 Compared to Nine Months Ended June 30, 2009

(in millions, except per share amounts)

| 2010 | 2009 | Change |  |  |
| ---: | ---: | ---: | ---: | ---: |
| $\$$ | $3,500.1$ | $\$$ | $3,258.1$ | $\$$ |
| 386.4 |  | 245.1 |  | 242.0 |
|  |  | 141.3 |  |  |
| 2.14 | 1.33 |  | 0.81 |  |

Diluted earnings per share from continuing operations
2.14
1.33
0.81

## Sales

Our sales increased $\$ 242.0$ million, or 7 percent, from $\$ 3,258.1$ million in the first nine months of 2009 to $\$ 3,500.1$ million in the first nine months of 2010. An organic sales increase of 4 percent was enhanced by benefits from currency translation of 3 percentage points. We had positive performance in our product businesses across all regions, particularly in our Architecture \& Software segment, resulting from the recovery in worldwide macroeconomic conditions during the nine months ended June 30, 2010. Pricing had only a minor impact on revenue during the period.
Organic sales to customers in the Asia-Pacific region increased 13 percent, led by strength in the emerging markets of Asia-Pacific, including China and India. Organic sales increased 4 percent in both the United States and Canada. Organic sales increased in Latin America by 3 percent as recent growth offset declines earlier in the fiscal year. Organic sales declined 3 percent in EMEA, primarily due to declines in our solutions and services businesses that have been slower to recover compared to our product businesses.
In the nine months ended June 30, 2010, our largest year-over-year end market sales increases were to customers in automotive and tire industries, while the largest decreases were to customers in the resource-based industries.
Income from Continuing Operations before Income Taxes
Income from continuing operations before income taxes increased 58 percent from $\$ 245.1$ million in the first nine months of 2009 to $\$ 386.4$ million in the first nine months of 2010 . This increase was primarily due to volume leverage. Gross profit similarly benefited from volume leverage, as gross profit as a percentage of sales increased 3.2 points. Strong sales performance in the second and third quarters more than offset sharp year-over-year declines in the first quarter. The positive margin impact of cost reductions, including the restructuring actions taken in fiscal 2009, was offset by current year cost increases related to employee compensation, pension and postretirement expense and incremental spending for future growth.
In the first nine months of 2010, we saved approximately $\$ 100$ million compared to the first nine months of 2009 related to benefits realized from restructuring actions taken in fiscal 2009, which was in line with our expectations. We recorded $\$ 20$ million less of restructuring charges during the nine months ended June 30, 2010, compared to the nine months ended June 30, 2009, which also contributed to the year-over-year income improvement. These benefits were offset by approximately $\$ 120$ million of additional expense for employee compensation, $\$ 30$ million of additional expense for pension and postretirement costs and $\$ 20$ million of incremental spending for future growth in the first nine months of 2010 compared to the first nine months of 2009.
Income from continuing operations before income taxes also benefited from favorable mix during the period. Our Architecture \& Software segment contributed 44 percent of our total sales during the first nine months of 2010, compared to 40 percent during the first nine months of 2009. During the nine months ended June 30, 2010, the Architecture \& Software segment s operating margin was 22.5 percent. The increase in percentage of sales by our higher-margin Architecture \& Software segment caused a positive mix effect.

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## ROCKWELL AUTOMATION, INC.

## Nine Months Ended June 30, 2010 Compared to Nine Months Ended June 30, 2009 - (Continued)

 Income TaxesThe effective tax rate for the first nine months of 2010 was 20.0 percent compared to 22.9 percent in the first nine months of 2009. The 2010 rate was lower than 2009 as we benefited from a lower proportionate share of income in higher tax rate jurisdictions as compared to the first nine months of 2009. We also recognized discrete tax benefits of $\$ 14.6$ million related to the favorable resolution of tax matters, partially offset by discrete tax expenses of $\$ 6.7$ million primarily related to the impact of a change in Mexican tax law and interest related to unrecognized tax benefits in the first nine months of 2010. In the first nine months of 2009 we recognized discrete tax benefits of $\$ 16.6$ million related to the resolution of a contractual tax obligation, the retroactive extension of the U.S. federal research tax credit, and the resolution of various worldwide tax matters, partially offset by discrete tax expenses of $\$ 15.5$ million related to the sale of a non-U.S. subsidiary, interest related to unrecognized tax benefits, the impact of a change in Wisconsin tax law, and the resolution of various worldwide tax matters.

## Discontinued Operations

Income from discontinued operations increased $\$ 21.1$ million during the nine months ended June 30 , 2010, compared to the nine months ended June 30, 2009, primarily due to a $\$ 21.3$ million tax benefit resulting from the resolution of a domestic tax matter relating to the January 2007 sale of our Dodge mechanical and Reliance Electric motors and repair services businesses.
Architecture \& Software
(in millions, except percentages)
Sales
Segment operating earnings

| 2010 |  | 2009 | Change |  |
| ---: | :---: | :---: | :---: | :---: |
| $\$$ | $1,539.1$ | $\$$ | $1,299.4$ | $\$$ |
| 347.0 |  | 186.1 |  | 239.7 |
| $22.5 \%$ |  | $14.3 \%$ |  | 8.2 pts |

Segment operating margin
22.5\%
14.3\%
8.2 pts

## Sales

Architecture \& Software sales increased 18 percent to $\$ 1,539.1$ million in the first nine months of 2010 compared to $\$ 1,299.4$ million in the first nine months of 2009. Organic sales increased 14 percent, and the effects of currency translation contributed 4 percentage points to the total increase. Substantially all of the organic sales increase was the result of an increase in volume due to recent macroeconomic trends in most regions and industries. Pricing had only a minor impact on revenue during the period. Canada, Asia-Pacific and Latin America year-over-year sales increases were greater than the segment average rate of increase, while year-over-year sales increases to customers in the United States and EMEA were slightly below the segment average rate of increase. Logix sales increased 24 percent in the first nine months of 2010 compared to the first nine months of 2009 , and sales in the automotive sector were very strong year over year.
Operating Margin
Architecture \& Software segment operating earnings were $\$ 347.0$ million in the first nine months of 2010, up 86 percent from $\$ 186.1$ million in the first nine months of 2009 . Operating margin increased 8.2 points to 22.5 percent in the first nine months of 2010 as compared to the first nine months of 2009. The increase was predominantly due to volume increases as a result of higher worldwide levels of industrial production and capital spending by our customers. Approximately half of the restructuring cost savings, additional employee compensation, additional pension and postretirement expenses and incremental spending for future growth described above applied to the Architecture \& Software segment. The benefits realized from prior year restructuring actions were offset by current period increases in employee compensation costs, pension and postretirement expenses and incremental spending for future growth.

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## ROCKWELL AUTOMATION, INC.

Nine Months Ended June 30, 2010 Compared to Nine Months Ended June 30, 2009 - (Continued) Control Products \& Solutions
(in millions, except percentages)
Sales

|  | 2010 |  | 2009 |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
| $\$$ | $1,961.0$ |  | $\$$ | $1,958.7$ |  |
| $\$$ | $\$$ | 2.3 |  |  |  |

Segment operating earnings
165.1
164.0
1.1

Segment operating margin
8.4\%
8.4\%

0 pts

## Sales

Control Products \& Solutions sales were $\$ 1,961.0$ million in the first nine months of 2010, slightly higher than $\$ 1,958.7$ million in the same period of 2009 . Organic sales declined 4 percent, as currency translation and acquisitions offset the rate of decline by 3 percentage points and 1 percentage point, respectively. The segment s organic sales decline was primarily attributable to declines in sales of the solutions and services businesses reflecting the decline in order rates that we experienced in the second half of 2009. While these businesses returned to modest year-over-year growth in the third quarter, it was more than offset by double-digit year-over-year declines through the first six months of 2010. The segment s product businesses grew at rates similar to our Architecture \& Software segment. Latin America and EMEA reported the largest year-over-year overall segment sales declines during the nine months ended June 30, 2010. Year-over-year sales in the United States declined consistent with the segment average. Asia-Pacific and Canada both reported double-digit year-over-year overall segment growth, benefiting $\$ 2.7$ million and $\$ 12.2$ million, respectively, from recent acquisitions. Asia-Pacific also benefited from strong growth in emerging economies. The impact of pricing on the segment s sales decline was insignificant.
Operating Margin
Control Products \& Solutions segment operating earnings were $\$ 165.1$ million in the first nine months of 2010, up 1 percent from $\$ 164.0$ million in the same period of 2009. Operating margin of 8.4 percent in the first nine months of 2010 was consistent with the same period of 2009. Approximately half of the restructuring cost savings, additional employee compensation, additional pension and postretirement expenses and incremental spending for future growth described above applied to the Control Products \& Solutions segment. Cost reductions and positive mix attributable to the shift toward product sales from solutions and services sales were offset by volume reductions.

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## 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):

|  | Nine Months Ended June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2010 |  | 2009 |  |
| Cash provided by (used for): |  |  |  |  |
| Operating activities | \$ | 433.4 | \$ | 408.6 |
| Investing activities |  | (49.7) |  | (107.1) |
| Financing activities |  | (173.7) |  | (271.1) |
| Effect of exchange rate changes on cash |  | (27.6) |  | (31.6) |
| Cash provided by (used for) continuing operations | \$ | 182.4 | \$ | (1.2) |
| The following table summarizes free cash flow (in millions): |  |  |  |  |
| Cash provided by continuing operating activities | \$ | 433.4 | \$ | 408.6 |
| Capital expenditures of continuing operations |  | (54.2) |  | (67.5) |
| Excess income tax benefit from share-based compensation |  | 12.3 |  | 1.3 |
| Free cash flow | \$ | 391.5 | \$ | 342.4 |

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. Our definition of free cash flow excludes the operating cash flows and capital expenditures related to our discontinued operations. Operating, investing and financing cash flows of our discontinued operations are presented separately in our statement of cash flows. Our accounting for share-based compensation requires us to report the related excess income tax benefit 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 differ from definitions used by other companies.
Free cash flow was a source of $\$ 391.5$ million for the nine months ended June 30, 2010, compared to a source of $\$ 342.4$ million for the nine months ended June 30, 2009. This increase in free cash flow is primarily due to improvements in current year earnings and reduced incentive compensation payments, partially offset by increased working capital. The year-over-year working capital increase was largely attributable to significant increases in inventory and accounts receivable and was partially offset by an increase in accounts payable levels. These changes restored working capital levels to those reflective of current demand.
We repurchased approximately 1.7 million shares of our common stock in the first nine months of 2010. The total cost of these shares was $\$ 93.1$ million, of which $\$ 2.7$ million was recorded in accounts payable at June 30, 2010, related to 55,000 shares that did not settle until July 2010. This is compared to purchases of approximately 1.7 million shares at a cost of $\$ 50.0$ million in the first nine months of 2009 . We also paid $\$ 3.5$ million in the first nine months of 2009 for unsettled share purchases outstanding at September 30, 2008. Our decision to repurchase additional stock in the remainder of 2010 will depend on business conditions, free cash flow generation, other cash requirements and stock
price. At June 30, 2010, we had approximately $\$ 528.1$ 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.
We expect future uses of cash to include working capital requirements, capital expenditures, additional contributions to our pension plans, payments related to restructuring actions expensed in prior years, acquisitions of businesses, dividends to shareowners, repurchases of common stock and repayments of debt. In June 2010, we increased our quarterly dividend on common stock 21 percent to 35 cents per share effective with the dividend payable in September 2010 ( $\$ 1.40$ per share annually). We expect capital expenditures in 2010 to be about $\$ 100$ million. We expect future cash payments related to previous restructuring actions to be approximately $\$ 15.3$ million, which we expect to spend in the next twelve months. We expect to fund these future uses of cash with a combination of existing cash balances, cash generated by operating activities, commercial paper borrowings, or a new issuance of debt or other securities.

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## ROCKWELL AUTOMATION, INC.

## Financial Condition (Continued)

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. Commercial paper is our principal source of short-term financing. At June 30, 2010 and September 30, 2009, we had no commercial paper outstanding. Our debt-to-total-capital ratio was 39.7 percent at June 30, 2010 and 40.7 percent at September 30, 2009.
On March 16, 2009, we replaced our former five-year $\$ 600.0$ million unsecured revolving credit facility with two new unsecured revolving credit facilities totaling $\$ 535.0$ million, each with an individual borrowing limit of $\$ 267.5$ million. One facility has a three-year term and the other facility had a 364 -day term. On March 15, 2010, we replaced our former 364-day $\$ 267.5$ million unsecured revolving credit facility with a new 364-day $\$ 300.0$ million unsecured revolving credit facility, increasing our current borrowing capacity under the two facilities to $\$ 567.5$ million. The new credit facility includes a term-out option that allows us to borrow, on March 14, 2011, up to $\$ 300.0$ million as a term loan for one year. We have not drawn down under any of these credit facilities at June 30, 2010 or September 30, 2009. Borrowings under these credit facilities bear interest based on short-term money market rates in effect during the period the borrowings are outstanding. The terms of these credit facilities 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 these credit facilities at June 30, 2010 and September 30, 2009. Separate short-term unsecured credit facilities of approximately $\$ 129.5$ million at June 30, 2010 were available to non-U.S. subsidiaries. The following is a summary of our credit ratings as of June 30, 2010:

## Credit Rating Agency

| Standard \& Poor s | A-1 | A | Stable |
| :--- | :---: | :---: | :---: |
| Moody s | P-2 | A3 | Stable |
| Fitch Ratings | F1 | A | Stable |

Among other uses, we can draw on our credit facilities as standby liquidity facilities 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 commercial paper ratings set forth in the table above. Under our current policy with respect to these ratings, we expect to limit our other borrowings under our credit facilities, if any, to amounts that would leave enough credit available under the facilities so that we could borrow, if needed, to repay all of our then outstanding commercial paper as it matures.
Our ability to access the commercial paper market and the related costs of these borrowings are affected by the strength of our credit rating and market conditions. We have not experienced any difficulty in accessing the commercial paper market to date. 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 our unsecured committed credit facility to provide short-term funding. In such event, the cost of borrowings under our unsecured committed credit facility could be higher than the cost of commercial paper borrowings.
We regularly monitor the third-party depository institutions that hold our cash and cash equivalents. Our emphasis is primarily on safety and liquidity of principal and secondarily on maximizing yield on those funds. We diversify our cash and cash equivalents among counterparties to minimize exposure to any one of these entities.
We enter into contracts to hedge certain third-party sales and intercompany transactions denominated in foreign currencies forecasted to occur within the next two years and to offset transaction gains or losses associated with some of our assets and liabilities that are denominated in currencies other than their functional currencies resulting from intercompany loans and other transactions with third parties denominated in foreign currencies. Our foreign currency forward exchange contracts are denominated in currencies of major industrial countries. We diversify our foreign currency forward exchange contracts among counterparties to minimize exposure to any one of these entities.
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, 2009. We believe that at June 30, 2010, there has been no material change to this information.

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## ROCKWELL AUTOMATION, INC.

## Environmental

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, 2009. We believe that at June 30, 2010, there has been no material change to this information.

## 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 exchange 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 exchange rates and 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 during 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):

|  | Sales | Three <br> Effect of <br> Changes <br> in <br> Currency |  | ths | Ended Ju | $\text { 30, } 2010$ <br> Effect of Acquisitions \$ | Organic Sales | ThreeMonthsEndedJune 30,2009Sales |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | Sales |  |  |  |  |  |
|  |  |  |  | Excluding |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | hanges in |  |  |  |  |
|  |  |  |  |  | Currency |  |  |  |  |
| United States | \$ 658.7 | \$ | (1.6) | \$ | 657.1 |  | \$ 657.1 |  | \$ 518.2 |
| Canada | 88.2 |  | (9.8) |  | 78.4 |  | 78.4 |  | 60.3 |
| Europe, Middle East and |  |  |  |  |  |  |  |  |  |
| Africa | 240.3 |  | 14.6 |  | 254.9 |  | 254.9 |  | 219.3 |
| Asia-Pacific | 186.1 |  | (8.7) |  | 177.4 |  | 177.4 |  | 144.7 |
| Latin America | 94.8 |  | 0.6 |  | 95.4 |  | 95.4 |  | 68.3 |
| Total Company Sales | \$ 1,268.1 | \$ | (4.9) | \$ | 1,263.2 | \$ | \$ 1,263.2 |  | 1,010.8 |
|  |  | Nine Months Ended June 30, 2010 |  |  |  |  |  | Nine <br> Months |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | Sales |  |  |  | Ended |
|  |  | Effect of |  | Excluding |  |  |  |  | June 30, |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | Changes in Currency |  | Effect of Acquisitions | Organic Sales |  | 2009 |
|  | Sales |  |  |  |  |  |  | Sales |
| United States | \$ 1,778.3 | \$ | (5.9) | \$ | 1,772.4 |  | \$ (1.5) | \$ 1,770.9 |  | 1,697.7 |
| Canada | 239.2 |  | (30.5) |  | 208.7 | (12.2) | 196.5 |  | 188.6 |
|  | 714.6 |  | 25.4) |  | 689.2 |  | 689.2 |  | 712.5 |

Europe, Middle East and Africa
Asia-Pacific
Latin America

Total Company Sales

| 512.3 | $(36.6)$ | 475.7 | $(2.7)$ | 473.0 | 420.3 |
| ---: | ---: | ---: | ---: | ---: | ---: |
| 255.7 | $(9.6)$ | 246.1 |  | 246.1 | 239.0 |

$$
\begin{array}{lllllllll}
\$ 3,500.1 & \$ & (108.0) & \$ & 3,392.1 & \$ & (16.4) & \$ 3,375.7 & \$ 3,258.1
\end{array}
$$

## Table of Contents

## ROCKWELL AUTOMATION, INC. <br> Supplemental Sales Information (Continued)

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

|  | Sales |  | Three M <br> Effect of <br> Changes <br> in <br> Currency |  |  | Ended Ju <br> Sales | 30, 2010 <br> Effect of Acquisitions \$ | Organic Sales | ThreeMonthsEndedJune 30,2009Sales |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | cluding |  |  |  |  |
|  |  |  |  | anges in |  |  |  |  |
|  |  |  |  | urrency |  |  |  |  |
| Architecture \& Software | \$ | 553.9 |  |  | \$ | (1.0) |  | \$ | 552.9 | \$ |  | 399.5 |
| Control Products \& Solutions |  | 714.2 |  |  |  | (3.9) |  | 710.3 |  |  |  | 611.3 |
| Total Company Sales | \$ | 1,268.1 |  |  | \$ | (4.9) | \$ | 1,263.2 | \$ |  |  | 1,010.8 |



## 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, 2009. We believe that at June 30, 2010, there has been no material change to this information.

## Recent Accounting Pronouncements

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

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## 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, 2009. We believe that at June 30, 2010, 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 2010-2013.

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## ROCKWELL AUTOMATION, INC.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

Information with respect to 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, 2009. We believe that at June 30, 2010, there has been no material change to this information.

## 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, 2009. We believe that at June 30, 2010 there has been no material change to this information.
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 June 30, 2010:

(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. Our repurchase program allows 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.

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## ROCKWELL AUTOMATION, INC.

Item 6. Exhibits
(a) Exhibits:

Exhibit 10.1* Rockwell Automation, Inc. 2008 Long-Term Incentives Plan, as amended and restated through June 4, 2010, filed as Exhibit 99 to the Registrant s Current Report on Form 8-K dated June 10,2010 , is hereby incorporated by reference.

Exhibit 10.2* Summary of Non-Employee Director Compensation and Benefits effective as of October 1, 2010.

Exhibit 12 Computation of Ratio of Earnings to Fixed Charges for the Nine Months Ended June 30, 2010.

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 $32.1 \quad$ 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.

Exhibit 101 Interactive Data Files.

* Management
contract or
compensatory
plan or
arrangement.


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## ROCKWELL AUTOMATION, INC.

## 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.

Date: August 5, 2010

Date: August 5, 2010

## ROCKWELL AUTOMATION. INC.

(Registrant)
By /s/ Theodore D. Crandall
Theodore D. Crandall
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)
By /s/ David M. Dorgan
David M. Dorgan
Vice President and Controller
(Principal Accounting Officer)

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## INDEX TO EXHIBITS

Exhibit No. Exhibit
10.2* Summary of Non-Employee Director Compensation and Benefits effective as of October 1, 2010.

12 Computation of Ratio of Earnings to Fixed Charges for the Nine Months Ended June 30, 2010.

15 Letter of Deloitte \& Touche LLP regarding Unaudited Financial Information.
31.1 Certification of Periodic Report by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
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32.2 Certification of Periodic Report by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Interactive Data Files.

* Management
contract or compensatory plan or arrangement.


[^0]:    (a) See Note 16 in the Condensed

