ROCKWELL AUTOMATION INC
Form 10-Q
May 05, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2011
Commission file number 1-12383
Rockwell Automation, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

144,307,744 shares of registrant s Common Stock, $1.00 par value, were outstanding on March 31, 2011.

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PART I. FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

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

	March 31, 2011	September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,020.3	$ 813.4
Receivables	1,005.7	859.0
Inventories	621.9	603.3
Deferred income taxes	182.5	170.2
Other current assets	117.4	140.7
Total current assets	2,947.8	2,586.6
Property, net of accumulated depreciation of $1,203.8 and $1,185.5, respectively	531.3	536.9
Goodwill	926.1	912.5
Other intangible assets, net	210.2	217.3
Deferred income taxes	315.3	324.5
Prepaid pension	34.9	28.3
Other assets	145.5	142.2
TOTAL	$ 5,111.1	$ 4,748.3
LIABILITIES AND SHAREOWNERS EQUITY		
Current liabilities:		
Accounts payable	$ 472.7	$ 435.7
Compensation and benefits	197.1	300.1
Advance payments from customers and deferred revenue	202.7	184.9
Customer returns, rebates and incentives	127.0	119.5
Other current liabilities	177.6	182.1
Total current liabilities	1,177.1	1,222.3
Long-term debt	904.9	904.9
Retirement benefits	938.8	923.4
Other liabilities	233.4	237.3
Commitments and contingent liabilities (Note 10)		

Shareowners equity:				
Common stock (shares issued: 181.4)		181.4		181.4
Additional paid-in capital		1,361.7		1,344.2
Retained earnings		3,112.4		2,912.4
Accumulated other comprehensive loss		(770.3)		(841.2)
Common stock in treasury, at cost (shares held: March 31, 2011, 37.1; September 30, 2010, 39.7)		(2,028.3)		(2,136.4)
Total shareowners equity		1,856.9		1,460.4
TOTAL	$	5,111.1	$	4,748.3

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Sales				
Products and solutions	$ 1,329.4	$ 1,049.1	$ 2,565.1	$ 1,998.4
Services	134.7	115.4	264.8	233.6
	1,464.1	1,164.5	2,829.9	2,232.0
Cost of sales				
Products and solutions	(795.1)	(612.8)	(1,528.4)	(1,172.4)
Services	(92.5)	(78.6)	(181.1)	(159.7)
	(887.6)	(691.4)	(1,709.5)	(1,332.1)
Gross profit	576.5	473.1	1,120.4	899.9
Selling, general and administrative expenses	(356.1)	(323.2)	(703.1)	(635.7)
Other (expense) income	(1.4)	(1.2)	3.2	(2.8)
Interest expense	(15.4)	(15.1)	(30.2)	(30.5)
Income from continuing operations before income taxes	203.6	133.6	390.3	230.9
Income tax provision	(37.2)	(21.7)	(73.8)	(41.2)
Income from continuing operations	166.4	111.9	316.5	189.7
Income from discontinued operations		25.1		23.9
Net income	$ 166.4	$ 137.0	$ 316.5	$ 213.6
Basic earnings per share:				
Continuing operations	$ 1.16	$ 0.78	$ 2.21	$ 1.33
Discontinued operations		0.18		0.17
Net income	$ 1.16	$ 0.96	$ 2.21	$ 1.50
Diluted earnings per share:				

Continuing operations	$	1.14	$	0.77	$	2.17	$	1.31
Discontinued operations				0.18				0.17
Net income	$	1.14	$	0.95	$	2.17	$	1.48
Cash dividends per share	$	0.35	$	0.29	$	0.70	$	0.58
Weighted average outstanding shares:								
Basic		143.4		142.4		142.6		142.2
Diluted		146.3		144.4		145.4		144.1

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Continuing operations:		
Operating activities:		
Net income	$ 316.5	$ 213.6
Income from discontinued operations		(23.9)
Income from continuing operations	316.5	189.7
Adjustments to arrive at cash provided by operating activities:		
Depreciation	46.4	48.8
Amortization of intangible assets	17.3	14.8
Share-based compensation expense	19.2	17.9
Retirement benefits expense	50.5	42.4
Pension trust contributions	(15.5)	(14.6)
Net (gain) loss on disposition of property and investments	(2.2)	1.0
Income tax benefit from the exercise of stock options	3.0	0.2
Excess income tax benefit from share-based compensation	(35.7)	(7.4)
Changes in assets and liabilities, excluding effects of foreign currency adjustments:		
Receivables	(123.7)	(78.0)
Inventories	(6.5)	(94.1)
Accounts payable	30.8	65.7
Compensation and benefits	(105.8)	49.5
Income taxes	37.4	19.2
Other assets and liabilities	6.1	42.8
Cash provided by operating activities	237.8	297.9
Investing activities:		
Capital expenditures	(42.9)	(30.5)
Proceeds from sale of property and investments	4.1	4.5
Cash used for investing activities	(38.8)	(26.0)
Financing activities:		
Cash dividends	(100.0)	(82.7)
Purchases of treasury stock	(104.2)	(22.6)
Proceeds from the exercise of stock options	159.1	16.2
Excess income tax benefit from share-based compensation	35.7	7.4
Other financing activities	(0.2)	(0.3)
Cash used for financing activities	(9.6)	(82.0)

Effect of exchange rate changes on cash		17.9		(16.3)
Cash provided by continuing operations		207.3		173.6
Discontinued operations:				
Cash used for discontinued operating activities		(0.4)		(0.2)
Cash used for discontinued operations		(0.4)		(0.2)
Increase in cash and cash equivalents		206.9		173.4
Cash and cash equivalents at beginning of period		813.4		643.8
Cash and cash equivalents at end of period	$	1,020.3	$	817.2

See Notes to Condensed Consolidated Financial Statements.

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

1. Basis of Presentation and Accounting Policies

In the opinion of management of Rockwell Automation, Inc. (the Company or Rockwell Automation), the unaudited Condensed Consolidated Financial Statements contain all adjustments necessary to present fairly the financial position, results of operations, and cash flows for the periods presented and, except as otherwise indicated, such adjustments consist only of those of a normal recurring nature. These statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 30, 2010. The results of operations for the three and six month periods ended March 31, 2011 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 $23.8 million at March 31, 2011 and $17.9 million at September 30, 2010. In addition, receivables are stated net of an allowance for certain customer returns, rebates and incentives of $10.0 million at March 31, 2011 and $16.4 million at September 30, 2010.

Earnings Per Share

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Income from continuing operations	$ 166.4	$ 111.9	$ 316.5	$ 189.7
Less: Allocation to participating securities	(0.3)	(0.2)	(0.7)	(0.4)
Income from continuing operations available to common shareowners	$ 166.1	$ 111.7	$ 315.8	$ 189.3
Income from discontinued operations	$	$ 25.1	$	$ 23.9
Less: Allocation to participating securities		(0.1)		(0.1)
Income from discontinued operations available to common shareowners	$	$ 25.0	$	$ 23.8
Net income	$ 166.4	$ 137.0	$ 316.5	$ 213.6
Less: Allocation to participating securities	(0.3)	(0.3)	(0.7)	(0.5)
Net income available to common shareowners	$ 166.1	$ 136.7	$ 315.8	$ 213.1
Basic weighted average outstanding shares	143.4	142.4	142.6	142.2
Effect of dilutive securities				
Stock options	2.5	1.7	2.4	1.6
Performance shares	0.4	0.3	0.4	0.3
Diluted weighted average outstanding shares	146.3	144.4	145.4	144.1

Basic earnings per share:				
Continuing operations	$ 1.16	$ 0.78	$ 2.21	$ 1.33
Discontinued operations		0.18		0.17
Net income	$ 1.16	$ 0.96	$ 2.21	$ 1.50
Diluted earnings per share:				
Continuing operations	$ 1.14	$ 0.77	$ 2.17	$ 1.31
Discontinued operations		0.18		0.17
Net income	$ 1.14	$ 0.95	$ 2.17	$ 1.48

For the three and six months ended March 31, 2011, share-based compensation awards for 1.7 million shares and 2.4 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive. For the three and six months ended March 31, 2010, share-based compensation awards for 5.5 million shares and 5.6 million shares, respectively, were excluded from the diluted EPS calculation because they were antidilutive.

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

2. Share-Based Compensation

We recognized $10.1 million and $19.2 million of pre-tax share-based compensation expense during the three and six months ended March 31, 2011, respectively. We recognized $9.2 million and $17.9 million of pre-tax share-based compensation expense during the three and six months ended March 31, 2010, 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 were (in thousands except per share amounts):

	Six Months Ended March 31,			
	2011		2010	
	Grants	Wtd. Avg. Share Fair Value	Grants	Wtd. Avg. Share Fair Value
Stock options	1,708	$ 21.28	2,169	$ 13.59
Performance shares	77	87.00	146	54.81
Restricted stock and restricted stock units	60	72.30	146	43.66
Unrestricted stock	11	69.79	11	44.20

3. Inventories

Inventories consist of (in millions):

	March 31, 2011	September 30, 2010
Finished goods	$ 242.2	$ 244.2
Work in process	149.2	144.1
Raw materials, parts and supplies	230.5	215.0
Inventories	$ 621.9	$ 603.3

We report inventories net of the allowance for excess and obsolete inventory of $48.3 million at March 31, 2011 and $46.3 million at September 30, 2010.

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

4. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the six months ended March 31, 2011 are (in millions):

	Architecture & Software	Control Products & Solutions	Total
Balance as of September 30, 2010	$ 385.5	$ 527.0	$ 912.5
Translation and other	2.5	11.1	13.6
Balance as of March 31, 2011	$ 388.0	$ 538.1	$ 926.1

Other intangible assets consist of (in millions):

	March 31, 2011		
	Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:			
Computer software products	$ 169.2	$ 116.3	$ 52.9
Customer relationships	61.0	20.2	40.8
Technology	84.3	41.3	43.0
Trademarks	32.9	9.5	23.4
Other	24.1	17.7	6.4
Total amortized intangible assets	371.5	205.0	166.5
Intangible assets not subject to amortization	43.7		43.7
Total	$ 415.2	$ 205.0	$ 210.2

	September 30, 2010		
	Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:			
Computer software products	$ 160.1	$ 107.3	$ 52.8
Customer relationships	59.6	16.6	43.0
Technology	83.8	38.0	45.8
Trademarks	32.5	7.6	24.9
Other	23.6	16.5	7.1
Total amortized intangible assets	359.6	186.0	173.6
Intangible assets not subject to amortization	43.7		43.7
Total	$ 403.3	$ 186.0	$ 217.3

The Allen-Bradley® trademark has an indefinite life, and therefore is not subject to amortization.
Estimated amortization expense is $34.1 million in 2011, $31.8 million in 2012, $25.6 million in 2013, $20.7 million in 2014 and $16.0 million in 2015.
We 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 2011 and concluded these assets are not impaired.

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

5. Other Current Liabilities

Other current liabilities consist of (in millions):

	March 31, 2011	September 30, 2010
Unrealized losses on foreign exchange contracts	$ 20.0	$ 18.9
Product warranty obligations	36.0	37.3
Taxes other than income taxes	39.3	33.3
Accrued interest	15.6	15.6
Income taxes payable	9.5	20.6
Other	57.2	56.4
Other current liabilities	$ 177.6	$ 182.1

6. 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.

Changes in the product warranty obligations for the six months ended March 31, 2011 and 2010 are (in millions):

	Six Months Ended March 31,	
	2011	2010
Balance at beginning of period	$ 37.3	$ 32.1
Warranties recorded at time of sale	18.5	18.4
Adjustments to pre-existing warranties	(3.1)	(0.5)
Settlements of warranty claims	(16.7)	(16.7)
Balance at end of period	$ 36.0	$ 33.3

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

7. 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 six months ended March 31, 2011. The notional values of our forward exchange contracts outstanding at March 31, 2011 were $859.3 million, of which $532.7 million were designated as cash flow hedges. Contracts with the most significant notional values relate to transactions denominated in the United States dollar and British pound sterling.

We also use foreign currency denominated debt obligations to hedge portions of our net investments in non-US subsidiaries. The currency effects of the debt obligations are reflected in accumulated other comprehensive loss within shareholders equity where they offset gains and losses recorded on our net investments globally. At March 31, 2011 we had $14.4 million of foreign currency denominated debt designated as net investment hedges.

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.

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

7. Derivative Instruments and Fair Value Measurement (Continued)

Assets and liabilities measured at fair value on a recurring basis and their location in our Condensed Consolidated Balance Sheet were (in millions):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Fair Value (Level 2) March 31, 2011	Fair Value (Level 2) September 30, 2010
Forward exchange contracts	Other current assets	$ 9.7	$ 9.9
Forward exchange contracts	Other assets	1.5	2.7
Forward exchange contracts	Other current liabilities	(12.4)	(8.5)
Forward exchange contracts	Other liabilities	(3.5)	(1.5)
Total		$ (4.7)	$ 2.6

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value (Level 2) March 31, 2011	Fair Value (Level 2) September 30, 2010
Forward exchange contracts	Other current assets	$ 11.1	$ 15.6
Forward exchange contracts	Other current liabilities	(7.6)	(10.4)
Total		$ 3.5	$ 5.2

The pre-tax amount of (losses) gains recorded in other comprehensive income related to hedges that would have been recorded in the Condensed Consolidated Statement of Operations had they not been so designated was (in millions):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Forward exchange contracts (cash flow hedges)	$ (14.2)	$ 9.9	$ (8.8)	$ 8.6
Foreign currency denominated debt (net investment hedges)	(0.6)		(0.5)	
Total	$ (14.8)	$ 9.9	$ (9.3)	$ 8.6

Approximately $3.0 million ($1.9 million net of tax) of the net unrealized losses on cash flow hedges as of March 31, 2011 will be reclassified into earnings during the next 12 months. We expect that these net unrealized losses will be offset when the hedged items are recognized in earnings.

The pre-tax amount of gains (losses) 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 losses and gains on the hedged items during the periods presented was:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Sales	$ 0.1	$ (0.5)	$ (0.2)	$ (0.7)
Cost of sales	(0.5)	(1.1)	(1.1)	(5.1)
Total	$ (0.4)	$ (1.6)	$ (1.3)	$ (5.8)

The amount recognized in earnings as a result of ineffective hedges was not significant.

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

7. Derivative Instruments and Fair Value Measurement (Continued)

The pre-tax amount of losses 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 March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Other (expense) income	$ (2.7)	$ (2.0)	$ (5.1)	$ (19.8)

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):

	March 31, 2011		September 30, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$ 904.9	$ 1,016.5	$ 904.9	$ 1,073.8

8. Retirement Benefits

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

	Pension Benefits			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Service cost	$ 17.7	$ 16.1	$ 35.1	$ 32.6
Interest cost	41.2	39.7	81.9	79.8
Expected return on plan assets	(51.4)	(47.8)	(102.1)	(96.0)
Amortization:				
Prior service credit	(0.5)	(1.1)	(1.0)	(2.1)
Net actuarial loss	15.9	10.5	31.8	21.0
Net periodic benefit cost	$ 22.9	$ 17.4	$ 45.7	$ 35.3

	Other Postretirement Benefits			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Service cost	$ 0.9	$ 1.0	$ 1.8	$ 1.9
Interest cost	2.6	3.2	5.1	6.3
Amortization:				
Prior service credit	(2.7)	(2.7)	(5.3)	(5.3)
Net actuarial loss	1.6	2.1	3.2	4.2

Net periodic benefit cost	$	2.4	$	3.6	$	4.8	$	7.1

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

9. Comprehensive Income

Comprehensive income consists of (in millions):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Net income	$ 166.4	$ 137.0	$ 316.5	$ 213.6
Other comprehensive income (loss):				
Unrecognized pension and postretirement benefit plan liabilities	10.6	4.3	18.2	8.6
Currency translation adjustments	57.7	(54.3)	57.6	(59.8)
Net unrealized (losses) gains on cash flow hedges	(8.6)	7.1	(4.6)	9.0
Other		0.1	(0.3)	0.1
Other comprehensive income (loss)	59.7	(42.8)	70.9	(42.1)
Comprehensive income	$ 226.1	$ 94.2	$ 387.4	$ 171.5

10. 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 a few thousand 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 (Nationwide) and Kemper Insurance (Kemper), 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 entered into a cost share agreement with us to pay the substantial majority of future defense and indemnity costs for Allen-Bradley asbestos claims. We believe that this arrangement with Nationwide 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.

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

10. Commitments and Contingent Liabilities (Continued)

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 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, 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. Federal Pacific Electric, a non-operating entity that had been retained following the sale of our Dodge mechanical and Reliance Electric motors and motor repair services businesses, dissolved pursuant to Delaware law on March 31, 2011.

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.

11. 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 pre-tax 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 six months ended March 31, 2011 was 18.9 percent. The effective tax rate was lower than the U.S. statutory rate of 35 percent because we benefited from lower non-U.S. tax rates, the utilization of foreign tax credits, and net discrete tax benefits of $8.9 million related to the favorable resolution of worldwide tax matters and the retroactive extension of the U.S. federal research tax credit.

The amount of unrecognized tax benefits was $62.6 million ($9.0 million net of $53.6 million of offsetting tax benefits) at March 31, 2011 and $66.3 million ($15.2 million net of $51.1 million of offsetting tax benefits) at September 30, 2010. The amount of unrecognized tax benefits that would reduce our effective tax rate if recognized was $53.8 million ($3.3 million net of $50.5 million of offsetting tax benefits) at March 31, 2011. Offsetting tax benefits primarily consist of tax receivables and deposits that are recorded in other assets.

There was no material change in the amount of unrecognized tax benefits in the first six months of 2011. We believe it is reasonably possible that the amount of unrecognized tax benefits could be reduced by up to $20.3 million and the amount of offsetting tax benefits could be reduced by up to $27.4 million during the next 12 months 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 $27.3 million and $1.2 million at March 31, 2011 and $24.9 million and $1.7 million at September 30, 2010, respectively.

We conduct business globally and are routinely audited by the various tax jurisdictions in which we operate. We are no longer subject to U.S. federal income tax examinations for years before 2008 and are no longer subject to state, local and foreign income tax examinations for years before 2003.

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

12. Business Segment Information

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Sales				
Architecture & Software	$ 624.2	$ 516.2	$ 1,238.1	$ 985.2
Control Products & Solutions	839.9	648.3	1,591.8	1,246.8
Total	$ 1,464.1	$ 1,164.5	$ 2,829.9	$ 2,232.0
Segment operating earnings				
Architecture & Software	$ 152.2	$ 122.6	$ 305.3	$ 221.6
Control Products & Solutions	92.0	54.7	160.9	92.5
Total	244.2	177.3	466.2	314.1
Purchase accounting depreciation and amortization	(4.7)	(5.0)	(9.5)	(9.6)
General corporate net	(20.5)	(23.6)	(36.2)	(43.1)
Interest expense	(15.4)	(15.1)	(30.2)	(30.5)
Income tax provision	(37.2)	(21.7)	(73.8)	(41.2)
Income from continuing operations	$ 166.4	$ 111.9	$ 316.5	$ 189.7

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 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 six months ended March 31, 2011 and 2010 were approximately 10 percent of our total sales.

13. Discontinued Operations

In the six months ended March 31, 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 motor 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.

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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 March 31, 2011, and the related condensed consolidated statements of operations for the three-month and six-month periods ended March 31, 2011 and 2010, and cash flows for the six-month periods ended March 31, 2011 and 2010. 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, 2010, and the related consolidated statements of operations, cash flows, shareowners equity, and comprehensive income (loss) for the year then ended (not presented herein); and in our report dated November 18, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2010 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
May 5, 2011

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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, the cyclical nature of our customers capital spending and currency exchange rates, all of which may affect our revenue and our profitability;
- 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;
- our ability to manage costs related to employee retirement and health care benefits;
- 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 (SEC) 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, 2010 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.

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 productivity and cost reduction, 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 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:

- achieve growth rates in excess of the automation market by expanding our served market and strengthening our technology and customer-facing differentiation;
- diversify our revenue streams by increasing our capabilities in new applications, including process control, safety and information software, broadening our solutions and service capabilities, advancing our global presence and serving a wider range of industries;
- grow market share by gaining new customers and by capturing a larger share of our Original Equipment Manufacturer machine builders (OEMs) and end user customers spending;
- enhance our market access by building our channel capability and partner network;
- make 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;
- 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; 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 second quarter of 2011, sales to U.S. customers accounted for 49 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 2007. 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 2009. The industrial sector has continued to demonstrate strength with growth in industrial production rates, some improvement in capacity utilization and continued strength in the PMI data.

	Industrial Production Index	PMI	Industrial Equipment Spending (in billions)	Capacity Utilization (percent)
Fiscal 2011				
Quarter ended:				
March 2011	93.1	61.2	$ 177.6	77.1
December 2010	91.7	58.5	169.8	76.1
Fiscal 2010				
Quarter ended:				
September 2010	91.0	55.3	164.7	75.5
June 2010	89.5	55.3	161.6	74.0
March 2010	88.0	60.4	146.8	72.3
December 2009	86.3	56.4	146.4	70.3
Fiscal 2009				
Quarter ended:				
September 2009	85.2	53.2	147.1	68.9

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 second quarter of 2011, sales to non-U.S. customers accounted for 51 percent of our total sales. These customers include both indigenous companies and multinational companies with expanding global presence. In addition to the global factors previously mentioned, international demand, particularly in emerging markets, has historically been driven by the strength of the industrial economy in each region, 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. Positive macroeconomic trends and forecasts make us optimistic that the global recovery will continue throughout fiscal 2011. Growth in emerging markets continues to exceed global GDP growth rates, but rising inflation, the Japan earthquake and related supply-chain impacts, and the unrest in the Middle East and North Africa, all create greater uncertainty in the global business outlook.

Revenue by Geographic Region

The table below presents our sales for the quarter ended March 31, 2011 by geographic region and the change in sales from the quarter ended March 31, 2010 (in millions, except percentages):

	Three Months Ended Mar. 31, 2011(1)	Change vs. Three Months Ended Mar. 31, 2010	Change in Organic Sales vs. Three Months Ended Mar. 31, 2010(2)
United States	$ 723.4	22%	21%
Canada	94.7	16%	9%
Europe, Middle East and Africa	313.8	30%	30%
Asia-Pacific	209.6	28%	22%
Latin America	122.6	47%	38%
Total Sales	$ 1,464.1	26%	24%

The table below presents our sales for the six months ended March 31, 2011 by geographic region and the change in sales from the six months ended March 31, 2010 (in millions, except percentages):

	Six Months Ended Mar. 31, 2011(1)	Change vs. Six Months Ended Mar. 31, 2010	Change in Organic Sales vs. Six Months Ended Mar. 31, 2010(2)
United States	$ 1,384.9	24%	23%
Canada	190.3	26%	20%
Europe, Middle East and Africa	597.0	26%	30%
Asia-Pacific	421.6	29%	24%

Latin America		236.1	47%	40%
Total Sales	$	2,829.9	27%	26%

(1) We attribute sales to the geographic regions based upon country of destination.

(2) Organic sales is a non-GAAP measure. See **Supplemental Sales Information** for information on this non-GAAP measure.

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ROCKWELL AUTOMATION, INC.

Summary of Results of Operations

Sales in the second quarter of 2011 increased 26 percent compared to the second quarter of 2010. Organic sales increased 24 percent, and the effects of currency translation contributed 2 percentage points to the total increase during the quarter. Sales in our solutions and services businesses increased 33 percent year over year, and our backlog in these businesses continued to increase. Product sales grew 22 percent year over year reflecting continued improvement in customers spending and increased OEM demand.

Total sales in emerging markets increased 33 percent as compared to the second quarter of 2010, including an organic sales increase of 28 percent and 5 percentage points from currency translation. Emerging markets represented 21 percent of total company sales in the second quarter of 2011. Latin America was our best performing region as organic sales increased 38 percent as compared to the same period in 2010. Organic sales to customers in mature markets were also strong globally. After lagging the rest of the world in the recovery, Europe, Middle East and Africa (EMEA) experienced its second consecutive quarter of 30 percent sales growth year over year.

In our Architecture & Software segment, sales increased 21 percent in the second quarter of 2011 as compared to the second quarter of 2010. Fiscal 2011 second quarter Architecture & Software sales growth moderated somewhat sequentially and was up 2 percent compared to the first quarter of 2011. In our Control Products & Solutions segment, sales in the second quarter of 2011 increased 30 percent from the second quarter of 2010. Fiscal 2011 second quarter Control Products & Solutions sales increased 12 percent sequentially.

The favorable impact of volume leverage, the primary contributor to margin improvement, was partially offset by increased spending to support growth, material and fuel cost inflation and sales mix. These factors accounted for substantially all the year-over-year changes in segment operating earnings, segment operating margin, gross margin and income from continuing operations before income taxes.

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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 six months ended March 31, 2011 and 2010 (in millions, except per share amounts):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Sales				
Architecture & Software	$ 624.2	$ 516.2	$ 1,238.1	$ 985.2
Control Products & Solutions	839.9	648.3	1,591.8	1,246.8
Total	$ 1,464.1	$ 1,164.5	$ 2,829.9	$ 2,232.0
Segment operating earnings (a)				
Architecture & Software	$ 152.2	$ 122.6	$ 305.3	$ 221.6
Control Products & Solutions	92.0	54.7	160.9	92.5
Purchase accounting depreciation and amortization	(4.7)	(5.0)	(9.5)	(9.6)
General corporate net	(20.5)	(23.6)	(36.2)	(43.1)
Interest expense	(15.4)	(15.1)	(30.2)	(30.5)
Income from continuing operations before income taxes	203.6	133.6	390.3	230.9
Income tax provision	(37.2)	(21.7)	(73.8)	(41.2)
Income from continuing operations	166.4	111.9	316.5	189.7
Income from discontinued operations (b)		25.1		23.9
Net income	$ 166.4	$ 137.0	$ 316.5	$ 213.6
Diluted earnings per share:				
Continuing operations	$ 1.14	$ 0.77	$ 2.17	$ 1.31
Discontinued operations		0.18		0.17
Net income	$ 1.14	$ 0.95	$ 2.17	$ 1.48
Diluted weighted average outstanding shares	146.3	144.4	145.4	144.1

(a) See Note 12 in the Condensed Consolidated Financial Statements for the definition of segment operating earnings.

(b) See Note 13 in the Condensed Consolidated Financial Statements for a description of items reported as discontinued operations.

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ROCKWELL AUTOMATION, INC.

2011 Second Quarter Compared to 2010 Second Quarter

(in millions, except per share amounts)	2011	2010	Change
Sales	$ 1,464.1	$ 1,164.5	$ 299.6
Income from continuing operations before income taxes	203.6	133.6	70.0
Diluted earnings per share from continuing operations	1.14	0.77	0.37

Sales

Our sales increased $299.6 million, or 26 percent, from $1,164.5 million in the second quarter of 2010 to $1,464.1 million in the second quarter of 2011. We had strong growth in every region and in both our products and solutions and services businesses. Sales in our solutions and services businesses increased 33 percent year over year. Product sales grew 22 percent year over year. Pricing contributed less than 1 percentage point to growth during the period.

Organic sales increased in Latin America by 38 percent compared to the second quarter of 2010, the fourth consecutive quarter of robust growth for the region. Organic sales in Asia-Pacific grew 22 percent year over year, led by China with 36 percent growth[1]. Organic sales to customers in mature markets were also strong globally. Organic sales increased 9 percent in Canada, 30 percent in EMEA and 21 percent in the United States compared to the second quarter of 2010.

During the second quarter of 2011, sales in all of our key end markets improved compared to the prior year. In our key end markets, the largest sales increases were to customers in the transportation and mining industries, while the smallest increases were to customers in the food and beverage industry.

Income from Continuing Operations before Income Taxes

Income from continuing operations before income taxes increased 52 percent from $133.6 million in the second quarter of 2010 to $203.6 million in the second quarter of 2011. Our strong performance reflects a continuing economic recovery. Increased volume caused the significant year-over-year income improvement, partially offset by cost increases related to increased spending to support growth, material and fuel cost inflation and sales mix. Material and fuel costs had a negative effect of approximately one point of total segment operating margin.

Within our Control Product & Solutions segment, sales in our solutions and services businesses grew faster than the segment average. These businesses have margins below the segment averages. Additionally, our Architecture & Software segment contributed 43 percent of our total sales during the second quarter of 2011, compared to 44 percent during the second quarter of 2010. The decrease in percentage of sales by our higher-margin Architecture & Software segment, as well as the mix within each segment, caused a negative mix effect of approximately one point of total segment operating margin in the second quarter of 2011.

General corporate expenses were $20.5 million in the second quarter of 2011 compared to $23.6 million in the second quarter of 2010. The decline was primarily due to the timing of charitable contributions. Selling, general and administrative expense as a percentage of sales decreased by 3.5 points to 24.3 percent, as volume increases outpaced spending increases.

1 Organic sales growth in China excludes 4 percentage points from the effect of changes in currency.

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ROCKWELL AUTOMATION, INC.

2011 Second Quarter Compared to 2010 Second Quarter (Continued)

Income Taxes

The effective tax rate for the second quarter of 2011 was 18.3 percent compared to 16.2 percent in the second quarter of 2010. We recognized net discrete tax benefits of $6.2 million and $6.6 million primarily related to the favorable resolution of worldwide tax matters during the second quarter of 2011 and 2010, respectively.

Architecture & Software

(in millions, except percentages)	2011	2010	Change
Sales	$ 624.2	$ 516.2	$ 108.0
Segment operating earnings	152.2	122.6	29.6
Segment operating margin	24.4%	23.8%	0.6pts

Sales

Architecture & Software sales increased 21 percent to $624.2 million in the second quarter of 2011 compared to $516.2 million in the second quarter of 2010. Organic sales increased 19 percent and the effects of currency translation contributed 2 percentage points to the overall increase. Substantially all of the organic sales increase resulted from increased volume due to recent macroeconomic trends in most regions and industries. Logix sales increased 21 percent in the second quarter of 2011 compared to the second quarter of 2010. Our motion control product sales grew over 40 percent in the second quarter of 2011 compared to the second quarter of 2010. EMEA, Asia-Pacific 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 Canada were near the segment average rate of increase, while year-over-year sales increases to customers in the United States were less than the segment average rate of increase. Pricing had a minor impact on revenue in the period.

Operating Margin

Architecture & Software segment operating earnings were $152.2 million in the second quarter of 2011, up 24 percent from $122.6 million in the same quarter of 2010. Operating margin increased 0.6 points to 24.4 percent in the second quarter of 2011 as compared to the second quarter of 2010. The increase was predominantly due to volume increases, partially offset by cost increases related to increased spending to support growth, material and fuel cost inflation and sales mix. Approximately half of the increased spending to support growth and material and fuel cost inflation described above related to the Architecture & Software segment. Sales of motion control products grew faster than the segment average. These products have margins below the segment average.

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ROCKWELL AUTOMATION, INC.

2011 Second Quarter Compared to 2010 Second Quarter (Continued)

Control Products & Solutions

(in millions, except percentages)	2011	2010	Change
Sales	$ 839.9	$ 648.3	$ 191.6
Segment operating earnings	92.0	54.7	37.3
Segment operating margin	11.0%	8.4%	2.6pts

Sales

Control Products & Solutions sales were $839.9 million in the second quarter of 2011, up 30 percent from $648.3 million in the second quarter of 2010. Organic sales increased 27 percent and currency translation contributed 3 percentage points to the total increase. The segment s organic sales increase resulted primarily from the segment s solutions and services businesses growth of 33 percent year over year, while the segment s products businesses grew at rates similar to our Architecture & Software segment. In our solutions and services businesses, $22 million of the increase related to a single large project that was completed during the period. Latin America reported above average year-over-year overall segment growth. Year-over-year sales increases to customers in Canada were less than the segment average rate of increase. Pricing had only a minor impact on revenue during the period.

Operating Margin

Control Products & Solutions segment operating earnings were $92.0 million in the second quarter of 2011, up 68 percent from $54.7 million in the same quarter of 2010. Operating margin increased by 2.6 points to 11.0 percent in the second quarter of 2011 as compared to 8.4 percent the second quarter of 2010. The increase was predominantly due to volume increases, partially offset by cost increases related to increased spending to support growth, material and fuel cost inflation and sales mix. Approximately half of the increased spending to support growth and material and fuel cost inflation described above related to the Control Products & Solutions segment. Sales in our solutions and services businesses grew faster than the segment average. As these businesses have margins below the segment average, this caused a negative mix effect.

ROCKWELL AUTOMATION, INC.

Six Months Ended March 31, 2011 Compared to Six Months Ended March 31, 2010

(in millions, except per share amounts)	2011	2010	Change
Sales	$ 2,829.9	$ 2,232.0	$ 597.9
Income from continuing operations before taxes	390.3	230.9	159.4
Diluted earnings per share from continuing operations	2.17	1.31	0.86

Sales

Our sales increased $597.9 million, or 27 percent, from $2,232.0 million in the first six months of 2010 to $2,829.9 million in the first six months of 2011. We started the fiscal year with a very strong first quarter and that momentum continued into the second quarter. Our broad based revenue growth led to strong growth in every region and in both our products and solutions and services businesses. Product sales grew 27 percent year over year, while sales in our solutions and services businesses increased 26 percent year over year. Pricing contributed less than 1 percentage point to growth during the period.

Organic sales in Asia-Pacific grew 24 percent year over year, led by China and India with 38 percent and 25 percent growth, respectively[2]. Organic sales increased in Latin America by 40 percent. Organic sales to customers in mature markets were also strong globally. Organic sales increased 20 percent in Canada, 30 percent in EMEA and 23 percent in the United States.

During the first six months of 2011, sales in all of our key end markets improved compared to the prior year. The largest sales increases were to customers in the transportation industry.

Income from Continuing Operations before Income Taxes

Income from continuing operations before income taxes increased 69 percent from $230.9 million in the first six months of 2010 to $390.3 million in the first six months of 2011. Our strong performance reflects a continuing economic recovery. Increased volume caused the significant year-over-year income improvement, partially offset by cost increases related to increased spending to support growth, increased employee compensation, material and fuel cost inflation and sales mix.

The first quarter of 2010 was the last quarter to benefit from the temporary employee pay cuts implemented in fiscal year 2009 during the economic downturn. The first quarter of 2010 was also the last quarter prior to a wage and salary increase. The year-over-year effect of increased compensation was approximately $25 million.

Material and fuel costs had a negative effect of approximately one point of total segment operating margin. Also, the sales mix within each segment caused a negative mix effect of approximately one point of total segment operating margin.

General corporate expenses were $36.2 million in the first six months of 2011 compared to $43.1 million in the first six months of 2010. The decline was primarily due to a sale of an investment which resulted in a $3.8 million gain.

Selling, general and administrative expense as a percentage of sales decreased by 3.7 points to 24.8 percent, as volume increases outpaced spending increases.

[2] Organic sales growth in China and India exclude 3 percentage points each from the effect of changes in currency.

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ROCKWELL AUTOMATION, INC.

Six Months Ended March 31, 2011 Compared to Six Months Ended March 31, 2010 (Continued)

Income Taxes

The effective tax rate for the first six months of 2011 was 18.9 percent compared to 17.8 percent in the first six months of 2010. During the first six months of 2011, we recognized net discrete tax benefits of $8.9 million related to the favorable resolution of worldwide tax matters and the retroactive extension of the U.S. federal research tax credit. During the first six months of 2010, we recognized discrete tax benefits of $11.3 million primarily related to the favorable resolution of worldwide tax matters, partially offset by a discrete tax expense of $2.4 million related to the impact of a change in Mexican tax law.

Architecture & Software

(in millions, except percentages)	2011	2010	Change
Sales	$ 1,238.1	$ 985.2	$ 252.9
Segment operating earnings	305.3	221.6	83.7
Segment operating margin	24.7%	22.5%	2.2pts

Sales

Architecture & Software sales increased 26 percent to $1,238.1 million in the first six months of 2011 compared to $985.2 million in the first six months of 2010. Organic sales increased 25 percent and currency translation contributed 1 percentage point to the total increase. Substantially all of the organic sales increase resulted from increased volume due to positive market conditions in most regions and industries, as product pricing remained relatively stable. Canada, EMEA 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 less than the segment average rate of increase. Year-over-year sales increases to customers in Asia-Pacific were near the segment average rate of increase. Logix sales increased 29 percent in the first six months of 2011 compared to the first six months of 2010.

Operating Margin

Architecture & Software segment operating earnings were $305.3 million in the first six months of 2011, up 38 percent from $221.6 million in the first six months of 2010. Operating margin increased 2.2 points to 24.7 percent in the first six months of 2011 as compared to the first six months of 2010. The increase was predominantly due to volume increases, partially offset by cost increases related to increased spending to support growth, increased employee costs, material and fuel cost inflation and sales mix. Approximately half of the increased spending to support growth, increased employee costs and material and fuel cost inflation described above related to the Architecture & Software segment. Sales of our motion control products grew faster than the segment average. These products have margins below the segment average.

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Six Months Ended March 31, 2011 Compared to Six Months Ended March 31, 2010 **(Continued)**

Control Products & Solutions

(in millions, except percentages)	2011	2010	Change
Sales	$ 1,591.8	$ 1,246.8	$ 345.0
Segment operating earnings	160.9	92.5	68.4
Segment operating margin	10.1%	7.4%	2.7pts

Sales

Control Products & Solutions sales were $1,591.8 million in the first six months of 2011, up 28 percent from $1,246.8 million in the first six months of 2010. Organic sales increased 26 percent and currency translation contributed 2 percentage points to the total increase. The segment s organic sales increase resulted from growth in both products and solutions and services businesses which grew at rates similar to the segment average. Asia-Pacific and Latin America reported above average year-over-year overall segment growth. Year-over-year sales increases to customers in EMEA and Canada were less 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. Pricing had only a minor impact on revenue during the period.

Operating Margin

Control Products & Solutions segment operating earnings were $160.9 million in the first six months of 2011, up 74 percent from $92.5 million in the same period of 2010. Operating margin increased by 2.7 points to 10.1 percent in the first six months of 2011 as compared to 7.4 percent the first six months of 2010. The increase was predominantly due to volume increases, partially offset by cost increases related to increased spending to support growth, increased employee compensation, material and fuel cost inflation and sales mix. Approximately half of the increased spending to support growth, employee costs and material and fuel cost inflation described above related to the Control Products & Solutions segment. Sales in our solutions and services businesses grew faster than the segment average. As these businesses have margins below the segment average, this caused a negative mix effect.

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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):

	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Cash provided by (used for):		
Operating activities	$ 237.8	$ 297.9
Investing activities	(38.8)	(26.0)
Financing activities	(9.6)	(82.0)
Effect of exchange rate changes on cash	17.9	(16.3)
Cash provided by continuing operations	$ 207.3	$ 173.6

The following table summarizes free cash flow (in millions):

	2011	2010
Cash provided by continuing operating activities	$ 237.8	$ 297.9
Capital expenditures of continuing operations	(42.9)	(30.5)
Excess income tax benefit from share-based compensation	35.7	7.4
Free cash flow	$ 230.6	$ 274.8

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 be different from definitions used by other companies.

Free cash flow was a source of $230.6 million for the six months ended March 31, 2011 compared to a source of $274.8 million for the six months ended March 31, 2010. The decrease in free cash flow is primarily due to higher performance-based compensation payments in the first quarter of 2011 as compared to the first quarter of 2010, which more than offset the positive cash flow effect of increased current year earnings. The 2011 payments are for performance-based compensation earned by our global employee population related to 2010 results.

We repurchased approximately 1.4 million shares of our common stock in the first six months of 2011. The total cost of these shares was $107.3 million, of which $4.3 million was recorded in accounts payable at March 31, 2011, related to 45,000 shares that did not settle until April 2011. We also paid $1.2 million in the first quarter of 2011 for unsettled share purchases outstanding at September 30, 2010. We repurchased approximately 0.5 million shares of our common stock in the first six months of 2010. The total cost of these shares was $25.5 million, of which $2.9 million was recorded in accounts payable at March 31, 2010, related to 52,500 shares that did not settle until April 2010. Our decision to repurchase additional stock in the remainder of 2011 will depend on business conditions, free cash flow generation, other cash requirements and stock price. At March 31, 2011, we had approximately $393.9 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, acquisitions of businesses, dividends to shareowners, repurchases of common stock and repayments of debt. We expect capital expenditures in 2011 to be about $120 million. 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 March 31, 2011 and September 30, 2010 we had no commercial paper borrowings outstanding. Our debt-to-total-capital ratio was 32.8 percent at March 31, 2011 and 38.3 percent at September 30, 2010.

On March 14, 2011, we replaced our former three-year $267.5 million unsecured revolving credit facility expiring in March 2012 and our former 364-day $300.0 million unsecured revolving credit facility expiring in March 2011 with a new four-year $750.0 million unsecured revolving credit facility. We did not incur early termination penalties in connection with the termination of the former credit facilities. We have not drawn down under any of these credit facilities at March 31, 2011 or September 30, 2010. 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 March 31, 2011 and September 30, 2010. Separate short-term unsecured credit facilities of approximately $138.6 million at March 31, 2011 were available to non-U.S. subsidiaries.

The following is a summary of our credit ratings as of March 31, 2011:

Credit Rating Agency	Short Term Rating	Long Term Rating	Outlook
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 facility as a standby liquidity facility to repay our outstanding commercial paper as it matures. This access to funds to repay maturing commercial paper is an important factor in maintaining the 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 facility, if any, to amounts that would leave enough credit available under the facility so that we could borrow, if needed, to repay all of our then outstanding commercial paper as it matures.

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 that 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 offset changes in the amount of future cash flows associated with 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, 2010. We believe that at March 31, 2011, there has been no material change to this information.

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, 2010. We believe that at March 31, 2011, 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):

	Three Months Ended March 31, 2011					Three Months Ended March 31, 2010
	Sales	Effect of Changes in Currency	Sales Excluding Changes in Currency	Effect of Acquisitions	Organic Sales	Sales
United States	$ 723.4	$ (2.4)	$ 721.0	$	$ 721.0	$ 593.7
Canada	94.7	(5.1)	89.6		89.6	81.9
Europe, Middle East and Africa	313.8					