TYSON FOODS INC
Form 10-Q
February 02, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 27, 2008

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________to________

001-14704

(Commission File Number)

TYSON FOODS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**71-0225165** (I.R.S. Employer Identification No.)
2200 Don Tyson Parkway, Springdale, Arkansas (Address of principal executive offices)	**72762-6999** (Zip Code)

(479) 290-4000
(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject

to such filing requirements for the past 90 days. Yes x 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x		Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)	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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of December 27, 2008.

Class	Outstanding Shares
Class A Common Stock, $0.10 par value (Class A stock)	307,876,184
Class B Common Stock, $0.10 par value (Class B stock)	70,021,155

TYSON FOODS, INC.

INDEX

PART I. FINANCIAL INFORMATION

		PAGE
Item 1.	Financial Statements	
	Consolidated Condensed Statements of Operations for the Three Months Ended December 27, 2008, and December 29, 2007	3
	Consolidated Condensed Balance Sheets December 27, 2008, and September 27, 2008	4
	Consolidated Condensed Statements of Cash Flows for the Three Months Ended December 27, 2008, and December 29, 2007	5
	Notes to Consolidated Condensed Financial Statements	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	37
Item 4.	Controls and Procedures	38
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	41
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 3.	Defaults Upon Senior Securities	41
Item 4.	Submission of Matters to a Vote of Security Holders	41
Item 5.	Other Information	41
Item 6.	Exhibits	42
SIGNATURES		42

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TYSON FOODS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three Months Ended	
	December 27, 2008	December 29, 2007
Sales	$ 6,521	$ 6,476
Cost of Sales	6,503	6,161
	18	315
Operating Expenses:		
Selling, general and administrative	216	215
Other charges	-	6
Operating Income (Loss)	(198)	94
Other (Income) Expense:		
Interest income	(4)	(2)
Interest expense	63	53
Other, net	18	(19)
	77	32
Income (Loss) from Continuing Operations before Income Taxes and Minority Interest	(275)	62
Income Tax Expense (Benefit)	(155)	21
Income (Loss) from Continuing Operations before Minority Interest	(120)	41
Minority Interest	(2)	-
Income (Loss) from Continuing Operations	(118)	41
Income (Loss) from Discontinued Operation, net of tax of $4 and $(3)	6	(7)
Net Income (Loss)	$ (112)	$ 34
Weighted Average Shares Outstanding:		
Class A Basic	303	279
Class B Basic	70	70
Diluted	373	355
Earnings (Loss) Per Share from Continuing Operations:		
Class A Basic	$ (0.32)	$ 0.12
Class B Basic	$ (0.29)	$ 0.11
Diluted	$ (0.32)	$ 0.12
Earnings (Loss) Per Share from Discontinued Operation:		
Class A Basic	$ 0.02	$ (0.02)
Class B Basic	$ 0.02	$ (0.02)
Diluted	$ 0.02	$ (0.02)
Net Earnings (Loss) Per Share:		
Class A Basic	$ (0.30)	$ 0.10
Class B Basic	$ (0.27)	$ 0.09
Diluted	$ (0.30)	$ 0.10
Cash Dividends Per Share:		
Class A	$ 0.040	$ 0.040
Class B	$ 0.036	$ 0.036

See accompanying Notes to Consolidated Condensed Financial Statements.

TYSON FOODS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(In millions, except share and per share data)

(Unaudited)

	December 27, 2008	September 27, 2008
Assets		
Current Assets:		
Cash and cash equivalents	$ 166	$ 250
Accounts receivable, net	1,106	1,271
Inventories, net	2,233	2,538
Other current assets	267	143
Assets of discontinued operation held for sale	125	159
Total Current Assets	3,897	4,361
Restricted Cash	85	-
Net Property, Plant and Equipment	3,524	3,519
Goodwill	2,520	2,511
Intangible Assets	152	128
Other Assets	306	331
Total Assets	$ 10,484	$ 10,850
Liabilities and Shareholders Equity		
Current Liabilities:		
Current debt	$ 17	$ 8
Trade accounts payable	1,094	1,217
Other current liabilities	747	878
Total Current Liabilities	1,858	2,103
Long-Term Debt	2,997	2,888
Deferred Income Taxes	271	291
Other Liabilities	564	554
Shareholders Equity:		
Common stock ($0.10 par value):		
Class A-authorized 900 million shares, issued 322 million shares	32	32
Class B-authorized 900 million shares, issued 70 million shares	7	7
Capital in excess of par value	2,161	2,161
Retained earnings	2,879	3,006
Accumulated other comprehensive income (loss)	(58)	41
	5,021	5,247
Less treasury stock, at cost- 14 million shares at December 27, 2008, and 15 million shares at September 27, 2008	227	233
Total Shareholders Equity	4,794	5,014
Total Liabilities and Shareholders Equity	$ 10,484	$ 10,850

See accompanying Notes to Consolidated Condensed Financial Statements.

TYSON FOODS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three Months Ended	
	December 27, 2008	December 29, 2007
Cash Flows From Operating Activities:		
Net income (loss)	$ (112)	$ 34
Depreciation and amortization	118	127
Deferred income taxes	(45)	(18)
Other, net	38	(16)
Net changes in working capital	144	59
Cash Provided by Operating Activities	143	186
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(84)	(100)
Proceeds from sale of property, plant and equipment	5	10
Proceeds from sale of investment	-	21
Change in restricted cash	(85)	-
Proceeds from sale of marketable securities	19	25
Purchases of marketable securities	(4)	(24)
Acquisitions, net of cash acquired	(52)	-
Other, net	-	(4)
Cash Used for Investing Activities	(201)	(72)
Cash Flows From Financing Activities:		
Net payments on revolving credit facilities	-	(66)
Payments of debt	(41)	(11)
Proceeds from borrowings of debt	99	3
Purchases of treasury shares	(1)	(4)
Dividends	(15)	(14)
Decrease in negative book cash balances	(73)	(13)
Stock options exercised and other, net	-	2
Cash Used for Financing Activities	(31)	(103)
Effect of Exchange Rate Change on Cash	5	2
Increase (Decrease) in Cash and Cash Equivalents	(84)	13
Cash and Cash Equivalents at Beginning of Period	250	42
Cash and Cash Equivalents at End of Period	$ 166	$ 55

See accompanying Notes to Consolidated Condensed Financial Statements.

TYSON FOODS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated condensed financial statements have been prepared by Tyson Foods, Inc. (the Company, we, us or our). Certain information and accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. Although we believe the disclosures contained herein are adequate to make the information presented not misleading, these consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended September 27, 2008. Preparation of consolidated condensed financial statements requires us to make estimates and assumptions. These estimates and assumptions affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

We believe the accompanying consolidated condensed financial statements contain all adjustments necessary to present fairly our financial position as of December 27, 2008, and the results of operations and cash flows for the three months ended December 27, 2008, and December 29, 2007. Results of operations and cash flows for the three months ended December 27, 2008, and December 29, 2007, are not necessarily indicative of results to be expected for the full year.

CONSOLIDATION

The consolidated financial statements include the accounts of all wholly-owned subsidiaries, as well as majority-owned subsidiaries for which we have a controlling interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

We have an investment in a joint venture, Dynamic Fuels LLC (Dynamic Fuels), in which we have a 50 percent ownership interest. Dynamic Fuels qualifies as a variable interest entity under Financial Accounting Standards Board (FASB) Interpretation No. 46R Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46R). Effective June 30, 2008, we began consolidating Dynamic Fuels since we are the primary beneficiary as defined by FIN 46R.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This standard also requires expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. At the beginning of the first quarter fiscal 2009, we partially adopted SFAS No. 157 as allowed by FASB Staff Position (FSP) 157-2, which delayed the effective date of SFAS No. 157 for nonfinancial assets and liabilities. FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, which clarified the application of SFAS No. 157 in inactive markets, was issued in October 2008 and was effective with our adoption of SFAS No. 157. As of the beginning of the first quarter fiscal 2009, we have applied the provisions of SFAS No. 157 to our financial instruments and the impact was not material. Under FSP 157-2, we will be required to apply SFAS No. 157 to our

nonfinancial assets and liabilities at the beginning of fiscal 2010. We are currently reviewing the applicability of SFAS No. 157 to our nonfinancial assets and liabilities, as well as the potential impact on our consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS No. 159). This statement provides companies with an option to report selected financial assets and liabilities, firm commitments, and nonfinancial warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. When adopted at the beginning of the first quarter fiscal 2009, we did not elect the fair value option under SFAS No. 159 and, therefore, there was no impact to our consolidated financial statements.

In April 2007, the FASB issued Staff Position No. FIN 39-1, Amendment of FASB Interpretation No. 39 (FIN 39-1), which requires entities that offset the fair value amounts recognized for derivative receivables and payables to also offset the fair value amounts recognized for the right to reclaim cash collateral with the same counterparty under a master netting agreement. We applied the provisions of FIN 39-1 to our consolidated condensed financial statements beginning in the first quarter of fiscal 2009. We did not restate the prior periods as the impact was not material.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). SFAS No. 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements to establish accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity in the consolidated financial statements, rather than in the liability or mezzanine section between liabilities and equity. SFAS No. 160 also requires consolidated net income be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. The impact of SFAS No. 160 will not have a material impact on our current Consolidated Financial Statements. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008; therefore, we expect to adopt SFAS No. 160 at the beginning of fiscal 2010.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination: 1) recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; 2) recognizes and measures goodwill acquired in a business combination or a gain from a bargain purchase; and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a business combination. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008; therefore, we expect to adopt SFAS No. 141R for any business combinations entered into beginning in fiscal 2010.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 establishes enhanced disclosure requirements about: 1) how and why an entity uses derivative instruments; 2) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and 3) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008; therefore, we expect to adopt SFAS No. 161 in the second quarter of fiscal 2009.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 specifies that issuers of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The amount allocated to the equity component represents a discount to the debt, which is amortized into interest expense using the effective interest method over the life of the debt. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. Therefore, we expect to adopt the provisions of FSP APB 14-1 beginning in the first quarter of fiscal 2010. The provisions of FSP APB 14-1 are required to be applied retrospectively to all periods presented. Upon retrospective adoption, we anticipate our effective interest rate on our 3.25% Convertible Senior Notes due 2013 will range from 8.0% to 8.50%, which would result in the recognition of an approximate $90 million to $100 million discount to these notes with the offsetting after tax amount recorded to capital in excess of par value. This discount will be accreted until the maturity date at the effective interest rate, which will not materially impact fiscal 2008 interest expense, but will result in an estimated $15 million to $20 million increase to our fiscal 2009 interest expense.

NOTE 2: ACQUISITIONS

In October 2008, we acquired three vertically integrated poultry companies in southern Brazil, which included Macedo Agroindustrial, Avicola Itaiopolis and Frangobras. The aggregate purchase price was $71 million, which included $19 million of mandatory deferred payments to be made through 2011. In addition, we have $13 million of contingent purchase price based on production volumes payable through fiscal 2010. The preliminary purchase price includes $17 million allocated to Goodwill and $12 million allocated to Intangible Assets. Combined, we expect these companies will have sales of approximately $100 million in fiscal 2009.

NOTE 3: DISCONTINUED OPERATION

On June 25, 2008, we executed a letter of intent with XL Foods Inc. to sell the beef processing, cattle feed yard and fertilizer assets of Lakeside for $87 million. Lakeside was part of our Beef segment. Total working capital at closing is expected to be approximately $112 million. XL Foods will pay an additional amount for certain working capital items, including cattle inventory, fertilizer inventory and packaging assets. We will retain the remaining working capital items, including finished product inventory, accounts receivable and accounts payable. Once the transaction is complete, we expect retained working capital, including inventory, at Lakeside will be liquidated and settled over a five-month period. This transaction is denominated in Canadian Dollars, thus conversion at the closing date to US Dollars could result in amounts in US Dollars different than described above.

We estimate approximately $60 million of Beef segment goodwill relates to Lakeside. In addition, at December 27, 2008, we had $42 million of currency translation adjustment gain in accumulated comprehensive income related to the Lakeside Canadian dollar translation.

The transaction remains subject to government approvals and execution of a definitive agreement between Tyson and XL Foods. Subject to receipt of such approvals, we anticipate being ready to complete the sale during the second quarter fiscal 2009 and are reporting the Lakeside results as a discontinued operation.

The following is a summary of Lakeside s operating results (in millions):

	Three Months Ended	
	December 27, 2008	December 29, 2007
Sales	$ 251	$ 290
Pretax income (loss)	10	(10)

The carrying amounts of Lakeside s assets held for sale include the following (in millions):

	December 27, 2008	September 27, 2008
Assets of discontinued operation held for sale:		
Inventories	$ 60	$ 82
Net property, plant and equipment	65	77
Total assets of discontinued operation held for sale	$ 125	$ 159

NOTE 4: DISPOSITIONS AND OTHER CHARGES

In the first quarter of fiscal 2008, we recorded an $18 million non-operating gain as the result of a private equity firm s purchase of a technology company in which we held a minority interest. This gain was recorded in Other Income in the Consolidated Condensed Statements of Operations.

In the first quarter of fiscal 2008, management approved plans for implementation of certain recommendations resulting from the previously announced FAST initiative, which was focused on process improvement and efficiency creation. As a result, in the first quarter of fiscal 2008, we recorded charges of $6 million related to employee termination benefits resulting from the termination of

approximately 200 employees. Of these charges, approximately $2 million, $2 million, $1 million and $1 million were recorded in the Chicken, Beef, Pork and Prepared Foods segments Operating Income (Loss), respectively. These charges were recorded in Other Charges in the Consolidated Condensed Statements of Operations. As of December 27, 2008, all employee termination benefits had been paid. No material adjustments to the accrual are anticipated.

NOTE 5: FINANCIAL INSTRUMENTS

We purchase certain commodities, such as grains and livestock, in the course of normal operations. As part of our commodity risk management activities, we use derivative financial instruments, primarily futures and options, to reduce our exposure to various market risks related to these purchases, as well as to changes in foreign currency exchange rates. Contract terms of a financial instrument qualifying as a hedge instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts designated and highly effective at meeting risk reduction and correlation criteria are recorded using hedge accounting. If a derivative instrument is accounted for as a hedge, changes in the fair value of the instrument will be offset either against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument s change in fair value is immediately recognized in earnings as a component of cost of sales. Instruments we hold as part of our risk management activities that do not meet the criteria for hedge accounting are marked to fair value with unrealized gains or losses reported currently in earnings. Changes in market value of derivatives used in our risk management activities relating to forward sales contracts are recorded in sales. Changes in market value of derivatives used in our risk management activities surrounding inventories on hand or anticipated purchases of inventories or supplies are recorded in cost of sales. We generally do not hedge anticipated transactions beyond 12 months.

We had derivative related balances of $32 million and $29 million recorded in other current assets at December 27, 2008, and September 27, 2008, respectively, and $14 million and $45 million in other current liabilities at December 27, 2008, and September 27, 2008, respectively.

Cash flow hedges: Derivative products, such as futures and options, are designated as hedges against changes in the amount of future cash flows related to commodities procurement. We do not purchase derivative products related to grain procurement in excess of our physical grain consumption requirements. Related to our grain hedges, there were $20 million of net losses recorded in accumulated other comprehensive income at December 27, 2008. These losses will be recognized within the next 12 months. Of these losses, the portion resulting from our open hedge positions was a net loss of $4 million as of December 27, 2008. Ineffectiveness related to our cash flow hedges was not significant during the three months ended December 27, 2008, and December 29, 2007.

Fair value hedges: We designate certain futures contracts as fair value hedges of firm commitments to purchase livestock for slaughter. Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with changes in fair value of the hedged asset or liability attributable to the hedged risk (including gains or losses on firm commitments), are recorded in current period earnings. Ineffectiveness results when the change in the fair value of the hedge instrument differs from the change in fair value of the hedged item. Ineffectiveness related to fair value hedges was not significant during the three months ended December 27, 2008, and December 29, 2007.

Undesignated positions: We hold positions as part of our risk management activities, primarily futures and options for grains, energy and livestock, for which we do not apply hedge accounting, but instead mark these positions to fair value through earnings at each reporting date. We generally do not enter into undesignated positions beyond 18 months.

Related to grain and energy positions in the Chicken segment for which we did not apply hedge accounting, we recognized pretax net losses of $173 million and net gains of $31 million in cost of sales for the three months ended December 27, 2008, and December 29, 2007, respectively, which included an unrealized pretax loss on open mark-to-market futures positions of $46 million as of December 27, 2008. Included in these

balances are grain positions we enter into to manage the risk of costs associated with forward sales to certain customers for which sales prices are determined under cost-plus arrangements. These unrealized positions, which do not qualify for hedge treatment, totaled losses of $69 million and $24 million at December 27, 2008, and September 27, 2008, respectively. When these positions are liquidated, we expect any realized gains or losses will be reflected in the prices of the poultry products sold. Since these derivative positions do not qualify for hedge treatment, they initially create volatility in our income statement associated with mark-to-market changes. However, once the positions are

liquidated and included in the sales price to the customer, there is ultimately no income statement impact as any previous mark-to-market gains or losses are included in the prices of the poultry products.

We enter into certain forward sales of boxed beef and boxed pork and forward purchases of cattle and hogs at fixed prices. The fixed price sales contracts lock in the proceeds from a sale in the future and the fixed cattle and hog purchases lock in the cost. However, the cost of the livestock and the related boxed beef and boxed pork market prices at the time of the sale or purchase could vary from this fixed price. As we enter into fixed forward sales of boxed beef and boxed pork and forward purchases of cattle and hogs, we also enter into the appropriate number of livestock futures positions to mitigate a portion of this risk. Changes in market value of the open livestock futures positions are marked to market and reported in earnings at each reporting date, even though the economic impact of our fixed prices being above or below the market price is only realized at the time of sale or purchase. In connection with these livestock futures, we recorded realized and unrealized net gains of $11 million for the three months ended December 27, 2008, which included an unrealized pretax loss on open mark-to-market futures positions of approximately $13 million as of December 27, 2008. We recorded realized and unrealized net gains of $25 million for the three months ended December 29, 2007, related to livestock futures positions.

NOTE 6: INVENTORIES

Processed products, livestock and supplies and other inventories are valued at the lower of cost or market. Cost includes purchased raw materials, live purchase costs, growout costs (primarily feed, contract grower pay and catch and haul costs), labor and manufacturing and production overhead related to the purchase and production of inventories. Total inventory consists of the following (in millions):

	December 27, 2008	September 27, 2008
Processed products:		
Weighted-average method - chicken and prepared foods	$ 864	$ 920
First-in, first-out method - beef and pork	457	571
Livestock - first-in, first-out method	578	701
Supplies and other - weighted-average method	334	346
Total inventory, net	$ 2,233	$ 2,538

In the first quarter of fiscal 2009, we recorded a $20 million non-cash inventory adjustment for a lower-of-cost-or-market valuation allowance related to our chicken inventory. This loss was recorded in Cost of Sales in the Consolidated Condensed Statements of Operations. We expect this allowance will be realized in the second quarter of fiscal 2009.

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

The major categories of property, plant and equipment and accumulated depreciation, at cost, are as follows (in millions):

	December 27, 2008	September 27, 2008
Land	$ 95	$ 89
Buildings and leasehold improvements	2,448	2,440
Machinery and equipment	4,472	4,382
Land improvements and other	214	210
Buildings and equipment under construction	313	352
	7,542	7,473
Less accumulated depreciation	4,018	3,954
Net property, plant and equipment	$ 3,524	$ 3,519

NOTE 8: OTHER CURRENT LIABILITIES

Other current liabilities are as follows (in millions):

	December 27, 2008	September 27, 2008
Accrued salaries, wages and benefits	$ 199	$ 259
Self-insurance reserves	228	236
Other	320	383
Total other current liabilities	$ 747	$ 878

NOTE 9: COMMITMENTS

We guarantee debt of outside third parties, which involve a lease and grower loans, all of which are substantially collateralized by the underlying assets. Terms of the underlying debt cover periods up to nine years, and the maximum potential amount of future payments as of December 27, 2008, was $53 million. We also maintain operating leases for various types of equipment, some of which contain residual value guarantees for the market value of the underlying leased assets at the end of the term of the lease. The terms of the lease maturities cover periods up to seven years. The maximum potential amount of the residual value guarantees is $57 million, of which $21 million would be recoverable through various recourse provisions and an undeterminable recoverable amount based on the fair market value of the underlying leased assets. The likelihood of material payments under these guarantees is not considered probable. At December 27, 2008, and September 27, 2008, no material liabilities for guarantees were recorded.

NOTE 10: LONG-TERM DEBT

The major components of long-term debt are as follows (in millions):

	Maturity	December 27, 2008	September 27, 2008
Revolving credit facility	2010	$ -	$ -
Accounts receivable securitization facility	2009, 2010	-	-
Senior notes (rates ranging from 7.00% to 8.25%)	2010 2028	2,401	2,400
3.25% Convertible senior notes	2013	458	t-size: 10pt; margin-top: 12pt">*Control Products & Solutions*

(in millions, except percentages)	2007	2006	Increase
Sales	$ 1,283.5	$ 1,183.5	$ 100.0
Segment operating earnings	169.5	156.2	13.3
Segment operating margin	13.2%	13.2%	

Sales

Control Products & Solutions sales increased 8 percent compared to the first six months of 2006. Currency translation increased reported revenue growth by 2 percentage points.

Operating Margin

Segment operating margin of our Control Products & Solutions operating segment remained flat in the first half of 2007 compared to the first half of 2006 due to the fact that inflation, product mix, spending to support growth and the gain on the sale of a building during the second quarter of 2006 completely offset the benefits of productivity, volume and price realized during the first half of the year.

31

Table of Contents

ROCKWELL AUTOMATION, INC.

Financial Condition

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

	Six Months Ended March 31,	
	2007	2006
Cash provided by (used for):		
Operating activities	$ 206.4	$ (94.2)
Investing activities	1,644.6	18.7
Financing activities	(1,159.8)	(183.4)
Effect of exchange rate changes on cash	8.5	(1.1)
Cash provided by (used for) continuing operations	$ 699.7	$ (260.0)

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

Cash provided by (used for) continuing operating activities	$ 206.4	$ (94.2)
Capital expenditures of continuing operations	(53.2)	(49.3)
Excess income tax benefit from the exercise of stock options	9.0	38.3
Free cash flow	$ 162.2	$ (105.2)

Our definition of free cash flow, which is a non-GAAP financial measure, takes into consideration capital investments required to maintain the operations of our businesses and execute our strategy. In the first quarter of 2006 we adopted SFAS 123(R) (see Note 2 in the Condensed Consolidated Financial Statements), which requires that we report the excess income tax benefit from the exercise of stock options as a financing cash flow rather than as an operating cash flow. We have added this benefit back to our calculation of free cash flow in order to consistently classify all 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 $162.2 million for the six months ended March 31, 2007 compared to a use of $105.2 million for the six months ended March 31, 2006. The increase in free cash flow was largely the result of the $450 million voluntary contribution to our U.S. qualified pension plan trust in the first six months of 2006, compared to $8.0 million of voluntary contributions in the first six months of 2007. This increase was partially offset by increased working capital requirements during the six months ended March 31, 2007.

Commercial paper is our principal source of short-term financing. We had no commercial paper borrowings outstanding at March 31, 2007. At September 30, 2006, commercial paper borrowings outstanding were $219.0, with a weighted average interest rate of 5.4 percent.

In January 2007, we received $1.75 billion of cash proceeds from the sale of our Dodge mechanical and Reliance Electric motors and motor repair services businesses. We used a portion of the cash proceeds to repay commercial paper borrowings of $675.1 million outstanding at January 31, 2007. We invested the remaining cash proceeds in cash equivalents, including commercial paper. In October 2005, we contributed $450 million to our U.S. qualified pension trust. We funded the contribution with a combination of cash on hand and $300 million of commercial paper

borrowings. In November 2005, we sold 8 owned properties used in continuing operations in a sale-leaseback transaction for net cash proceeds of approximately $89.9 million. We also sold 16 properties used in discontinued operations in the sale-leaseback transaction for net cash proceeds of $57.6 million. We used the cash proceeds to repay commercial paper borrowings.

Table of Contents

ROCKWELL AUTOMATION, INC.

Financial Condition (Continued)

We repurchased approximately 13.9 million shares of our common stock in the first six months of 2007, of which 96,839 shares did not settle until April 2007. The total cost of these shares was $865.7 million, of which $5.8 million was recorded in accounts payable at March 31, 2007. This is compared to purchases of approximately 4.9 million shares at a cost of $290.5 million in the first six months of 2006. We anticipate continuing to repurchase stock in 2007, the amount of which will depend ultimately on business conditions, stock price and other cash requirements. At March 31, 2007, we had approximately $666.8 million remaining for stock repurchases under existing board authorizations. 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 repurchases of common stock, repayments of short-term borrowings and the short-term portion of long-term borrowings, tax payments related to the Power Systems gain, dividends to shareowners, capital expenditures and acquisitions of businesses and may include additional contributions to our pension plans. We expect capital expenditures from continuing operations in 2007 to be about $135 million. We expect to fund these future uses of cash with existing cash balances (which include a portion of the proceeds from our Power Systems divestiture), cash generated by operating activities, commercial paper borrowings, a new issue of debt or issuance of other securities.

In addition to cash generated by operating activities, we have access to existing financing sources, including the public debt markets and unsecured credit facilities with various banks. Our debt-to-total-capital ratio was 25.8 percent at March 31, 2007 and 33.5 percent at September 30, 2006.

In October 2004, we entered into a five-year $600.0 million unsecured revolving credit facility that replaced our then existing $675.0 million unsecured credit facilities. Our credit facility remains in effect and we had not drawn down under it at March 31, 2007 or September 30, 2006. Borrowings under our credit facility bear interest based on short-term money market rates in effect during the period the borrowings are outstanding. The terms of our credit facility contain covenants under which we would be in default if our debt-to-total-capital ratio was to exceed 60 percent. We were in compliance with all covenants under our credit facility at March 31, 2007 and September 30, 2006. In addition to our $600.0 million credit facility, short-term unsecured credit facilities of approximately $122.3 million at March 31, 2007 were available to foreign subsidiaries. In September 2006 we entered into a 364-day $250.0 million unsecured revolving credit facility. We terminated our $250.0 million credit facility effective March 30, 2007, as we no longer considered the liquidity provided by this facility to be necessary.

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

Credit Rating Agency	Short Term Rating	Long Term Rating	Outlook
Standard & Poor s	A-1	A	Stable
Moody s	P-2	A3	Positive
Fitch Ratings	F1	A	Stable

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

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

Table of Contents

ROCKWELL AUTOMATION, INC.

Financial Condition (Continued)

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, 2006. We have updated this information in Note 12 in the Condensed Consolidated Financial Statements, due to a significant change in our reserve balances during the three-months ended March 31, 2007.

Supplemental Sales Information

We translate sales of subsidiaries operating outside of the United States using exchange rates during the respective period. Therefore, reported sales are affected by changes in currency rates, which are outside our control. We believe that sales excluding the effect of changes in currency exchange rates, which is a non-GAAP financial measure, provides useful information to investors because it reflects regional performance from the activities of our businesses without the effect of changes in currency rates. We use sales excluding the effect of changes in currency exchange rates 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 as were in effect the preceding year. We attribute sales to the geographic regions based on the country of destination.

The following is a reconciliation of our reported sales to sales excluding the effect of changes in currency exchange rates (in millions):

	Three Months Ended March 31, 2007			Three Months Ended March 31, 2006
	Sales	Effect the of Changes in Currency Exchange Rates	Sales Excluding Effect of Changes in Currency Exchange Rates	Sales
United States	$ 650.9	$ 0.3	$ 651.2	$ 649.3
Canada	80.4	1.0	81.4	86.4
Europe, Middle East and Africa	267.8	(18.7)	249.1	198.3
Asia-Pacific	134.7	(4.4)	130.3	125.9
Latin America	72.7	(0.2)	72.5	61.1
Total Company Sales	$ 1,206.5	$ (22.0)	$ 1,184.5	$ 1,121.0

	Six Months Ended March 31, 2007		Six Months Ended March 31, 2006
	Effect	Sales Excluding the Effect	

	Sales	of Changes in Currency Exchange Rates	of Changes in Currency Exchange Rates	Sales
United States	$ 1,285.6	$ (0.3)	$ 1,285.3	$ 1,270.0
Canada	156.8	(1.6)	155.2	164.1
Europe, Middle East and Africa	497.3	(33.6)	463.7	384.7
Asia-Pacific	269.4	(9.2)	260.2	249.9
Latin America	143.7	(0.7)	143.0	122.0
Total Company Sales	$ 2,352.8	$ (45.4)	$ 2,307.4	$ 2,190.7

34

Table of Contents

ROCKWELL AUTOMATION, INC.

Supplemental Sales Information (Continued)

The following is a reconciliation of our reported sales by operating segment to sales excluding the effect of changes in currency exchange rates (in millions):

	Three Months Ended March 31, 2007			Three Months Ended March 31, 2006
	Sales	Effect of Changes in Currency Exchange Rates	Sales Excluding the Effect of Changes in Currency Exchange Rates	Sales
Architecture & Software	$ 540.3	$ (12.3)	$ 528.0	$ 509.9
Control Products & Solutions	666.2	(9.7)	656.5	611.1
Total Company Sales	$ 1,206.5	$ (22.0)	$ 1,184.5	$ 1,121.0

	Six Months Ended March 31, 2007			Six Months Ended March 31, 2006
	Sales	Effect of Changes in Currency Exchange Rates	Sales Excluding the Effect of Changes in Currency Exchange Rates	Sales
Architecture & Software	$ 1,069.3	$ (24.1)	$ 1,045.2	$ 1,007.2
Control Products & Solutions	1,283.5	(21.3)	1,262.2	1,183.5
Total Company Sales	$ 2,352.8	$ (45.4)	$ 2,307.4	$ 2,109.7

Table of Contents

ROCKWELL AUTOMATION, INC.

Critical Accounting Policies and Estimates

We have prepared the Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Condensed Consolidated Financial Statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Information with respect to our critical accounting policies that we believe could have the most significant effect on our reported results or require subjective or complex judgments by management is contained in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2006. We believe that at March 31, 2007, there has been no material change to this information, except as follows:

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statements No. 87, 88, 106, and 132R* (SFAS 158). SFAS 158 requires companies to recognize the funded status of pension and other postretirement benefit plans on sponsoring employers balance sheets and to recognize changes in the funded status in the year the changes occur. It also requires the measurement date of plan assets and obligations to occur at the end of the employers fiscal year. SFAS 158 is effective for us at the end of fiscal 2007, except for the change in measurement date, which is effective for us in fiscal 2009. Based on the funded status of our pension and postretirement benefit plans as reported in our Annual Report on Form 10-K dated September 30, 2006, we would have recorded approximately a 15 percent decrease in shareowners equity had SFAS 158 been effective at that date. It is unlikely that FAS 158 will affect our results of operations, our loan covenant compliance or our other financial arrangements. The ultimate effect on our financial statements is dependent upon the discount rate at our fiscal 2007 measurement date (June 30, 2007) and actual returns on our pension plan assets during the year.

Our reserve for environmental matters, net of related receivables, was $77.2 million at March 31, 2007 and $65.7 million at September 30, 2006. The reserve includes $27.7 million and $28.7 million recorded in other liabilities in the Condensed Consolidated Balance Sheet at March 31, 2007 and September 30, 2006, respectively, relating to conditional asset retirement obligations. During the three-months ended March 31, 2007, we recorded an increase in the reserves of $13.7 million ($8.5 million after tax or $0.05 per diluted share) as a result of an anticipated legal settlement during the quarter and changes in estimated remediation costs at three sites as a result of new information.

Recent Accounting Pronouncements

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

Table of Contents

ROCKWELL AUTOMATION, INC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information with respect to our exposure to interest rate risk and foreign currency risk is contained in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2006. We believe that at March 31, 2007, there has been no material change to this information.

Item 4. Controls and Procedures

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

Internal Control Over Financial Reporting: As previously disclosed, we are in the process of developing and implementing common global process standards and an enterprise-wide information technology system. In the second quarter of 2007, we implemented the manufacturing, logistics, and non-manufacturing purchasing processes and functionality of the system to additional locations. In doing so, we modified and enhanced our internal controls over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) as a result of and in connection with the implementation of the new system and processes. Additional implementations will occur to most locations of our company over a multi-year period, with additional phases scheduled throughout fiscal 2007-2010.

There have not been any other changes in our internal control over financial reporting during the quarter ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information about our legal proceedings is contained in Item 3, Legal Proceedings, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2006, and Part II, Item 1, Legal Proceedings, of our Quarterly Report on Form 10-Q for the quarter ended December 31, 2006. Such information is updated in its entirety, as of April 16, 2007, as follows:

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

Table of Contents

ROCKWELL AUTOMATION, INC.

Item 1. Legal Proceedings (Continued)

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

On November 13, 1990, RIC was served with another civil action brought against it in the same court by James Stone, claiming to act in the name of the United States, alleging violations of the U.S. False Claims Act in connection with its operation of the Plant (and seeking treble damages and forfeitures). On December 6, 1995, the DOE notified RIC that it would no longer reimburse costs incurred by RIC in defense of the action. On November 19, 1996, the court granted the Department of Justice leave to intervene in the case on the government s behalf. On April 1, 1999 a jury awarded the plaintiffs approximately $1.4 million in damages. On May 18, 1999, the court entered judgment against RIC for approximately $4.2 million, trebling the jury s award as required by the False Claims Act, and imposing a civil penalty of $15,000. On September 24, 2001, a panel of the 10th Circuit Court of Appeals affirmed the judgment. On November 2, 2001, RIC filed a petition for rehearing with the Court of Appeals seeking reconsideration of that portion of the decision holding that Mr. Stone is entitled to an award of attorneys fees. On March 4, 2002, the Court of Appeals remanded the case to the trial court for the limited purpose of making findings of fact and conclusions of law pertaining to Mr. Stone s relator status and, the trial court having made findings of fact on the issue, on March 15, 2004, a panel of the Court of Appeals again ruled that Mr. Stone is entitled to an award of attorneys fees. On March 27, 2007, the Supreme Court reversed the findings of the lower courts and held that Mr. Stone was not a proper relator with respect to the claims on which RIC was found liable. As a result of this ruling, RIC will not be liable for Mr. Stone s attorney s fees. We are making arrangements to pay $4.2 million plus interest that RIC now owes to the U.S. government. We believe that RIC is entitled under applicable law and its contract with the DOE to be indemnified for all costs and any liability associated with this action, and RIC has filed a claim with the DOE seeking reimbursement that is described more fully below.

On January 8, 1991, RIC filed suit in the United States Court of Federal Claims against the DOE, seeking recovery of $6.5 million of award fees that it alleges are owed to it under the terms of its contract with the DOE for management and operation of the Plant during the period October 1, 1988 through September 30, 1989. On January 18, 2007, the Court entered judgment in our favor, which will require DOE to pay us $3.1 million, plus interest since 1991. This judgment is no longer subject to appeal. On May 4, 2005, RIC filed another claim with the DOE, seeking recovery of $11.3 million in unreimbursed costs incurred in

defense of the Stone suit. On September 30, 2005, the DOE Contracting Officer denied that claim and demanded repayment of $4 million in previously reimbursed Stone defense costs. On November 10, 2005, RIC appealed both aspects of the Contracting Officer s decision regarding Stone defense costs to the Energy Board of Contract Appeals. Both parties have filed motions for summary judgment.

In the second quarter of 2006, we recorded a $5.0 million ($3.0 million after-tax) accrual in discontinued operations for legal contingencies related to this matter. This accrual will be used to pay the amount that RIC now owes to the U.S. government as a result of the Stone case.

ROCKWELL AUTOMATION, INC.

Item 1. Legal Proceedings (Continued)

Russellville. On March 24, 1997, the Circuit Court of Franklin County, Kentucky in *Commonwealth of Kentucky, Natural Resources and Environmental Protection Cabinet vs. Rockwell*, an action filed in 1986 seeking remediation of PCB contamination resulting from unpermitted discharges of PCBs from a plant in Russellville, Kentucky owned and operated by RIC s Measurement & Flow Control Division before its divestiture in March 1989, entered judgment establishing PCB cleanup levels for the former plant site and certain offsite property and ordering additional characterization of possible contamination in the Mud River and its flood plain. The Court deferred any decision to impose civil penalties pending implementation of an appropriate remediation program. On August 13, 1999, the Court of Appeals affirmed the trial court s judgment, a ruling that the Kentucky Supreme Court has let stand. We have been proceeding with remediation and characterization efforts consistent with the trial court s ruling.

Asbestos. Like thousands of other companies, 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. The great bulk of the complaints, however, do not identify any of our products or specify which of these claimants, if any, were exposed to asbestos attributable to our products; and past experience has shown that the vast majority of the claimants will never identify any of our products.

In addition, when our products appear to be identified, in some cases they are from divested businesses, and we are indemnified for most of the costs. However, we have agreed to defend and indemnify asbestos claims associated with products manufactured or sold by our Dodge mechanical and Reliance Electric motors and motor repair services businesses prior to their divestiture by us, which occurred on January 31, 2007. But in all cases, for those claimants who do show that they worked with our products, we nevertheless believe we have meritorious defenses, in substantial part due to the integrity of our products, the encapsulated nature of any asbestos-containing components, and the lack of any impairing medical condition on the part of many claimants. We defend those cases vigorously. Historically, we have been dismissed from the vast majority of these claims with no payment to claimants.

We have maintained insurance coverage that we believe covers indemnity and defense costs, over and above self-insured retentions, for most of these claims. We initiated litigation in the Milwaukee County Circuit Court on February 12, 2004 to enforce the insurance policies against Nationwide Indemnity Company and Kemper Insurance, the insurance carriers that provided liability insurance coverage to our former Allen-Bradley subsidiary. As a result, the insurance carriers have paid some past defense and indemnity costs and have agreed to pay the substantial majority of future defense and indemnity costs for Allen-Bradley asbestos claims, subject to policy limits. If either carrier becomes insolvent or the policy limits of either carrier are exhausted, our share of future defense and indemnity costs may increase. However, coverage under excess policies may be available to pay some or all of these costs.

The uncertainties of asbestos claim litigation and the long term solvency of our insurance companies make it difficult to predict accurately the ultimate outcome of asbestos claims. That uncertainty is increased by the possibility of adverse rulings or new legislation affecting asbestos claim litigation or the settlement process. Subject to these uncertainties and based on our experience defending asbestos claims, we do not believe these lawsuits will have a material adverse effect on our financial condition.

Table of Contents

ROCKWELL AUTOMATION, INC.

Item 1. Legal Proceedings (Continued)

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

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

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

Other. Various other lawsuits, claims and proceedings have been or may be instituted or asserted against us relating to the conduct of our business, including those pertaining to product liability, environmental, safety and health, intellectual property, employment and contract matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, we believe the disposition of matters that are pending or have been asserted will not have a material adverse effect on our business or financial condition.

Item 1A. Risk Factors

Information about our most significant risk factors is contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2006. We believe that at March 31, 2007 there has been no material change to this information, except as follows:

We do not consider the risk factor titled, Dispositions of businesses involve risks and uncertainties, to continue to be a significant risk, as we completed the sale of the principal businesses of our former Power Systems operating segment to Baldor Electric Company on January 31, 2007.

We have also added the following risk factor:

Failure to successfully execute on our globalization and cost productivity initiatives could have an adverse effect on our operating results.

Our globalization strategy includes localization of our products and services to be near our customers and identified growth opportunities. Localization of our products and services includes expanding our global capabilities, including supply chain and sourcing activities, product design, manufacturing, engineering,

marketing and sales and support. In addition, we continue with our initiative to invest in actions to reduce our cost structure. The failure to achieve our objectives on these initiatives could have an adverse effect on our operating results.

Table of Contents

ROCKWELL AUTOMATION, INC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Share Repurchases

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

Period	Total Number of Shares Purchased[(1)]	Average Price Paid Per Share[(2)]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approx. Dollar Value of Shares that may yet be Purchased Under the Plans or Programs[(3)]
January 1 31, 2007	3,000,000	$ 60.46	3,000,000	$
February 1 28, 2007	2,682,433	63.67	2,681,100	829,293,204
March 1 31, 2007	2,661,156	61.06	2,661,156	666,795,717
Total	8,343,589	61.69	8,342,256	

(1) All of the shares purchased during the quarter ended March 31, 2007 were acquired pursuant to the repurchase programs described in (3) below, except for 1,333 shares that we acquired in February 2007 from an employee. We acquired these shares in connection with the exercise of employee stock options and the surrender of

shares to us to pay the exercise price.

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

(3) On September 6, 2006, we initiated a 9 million share repurchase program effective through September 30, 2007. This program was approved by our Board of Directors, and replaced our former 9 million share repurchase program in effect since September 8, 2005. At the time we terminated and replaced our former repurchase program, no shares remained subject to repurchase under the former program. On December 6, 2006, the Board of Directors approved the repurchase by us of 3 million shares between December 29, 2006 and December 31, 2007. This was in

addition to the
9 million share
repurchase
program
authorized in
September 2006.
On February 7,
2007, the Board
of Directors
approved an
additional $1.0
billion of share
repurchases. Our
repurchase
programs allow
management to
repurchase shares
at its discretion.
However, during
quarter-end quiet
periods, defined
as the period of
time from
quarter-end until
two days
following the
filing of our
quarterly
earnings results
with the SEC on
Form 8-K, shares
are repurchased
at our broker s
discretion
pursuant to a
share repurchase
plan subject to
price and volume
parameters.

Table of Contents

ROCKWELL AUTOMATION, INC.

Item 4. Submission of Matters to a Vote of Security Holders

(a) We held our annual meeting of shareowners on February 7, 2007.

(b) At the annual meeting, the shareowners:

(i) voted to elect three directors. Each nominee for director was elected to a term expiring at our annual meeting of shareowners in 2010 by a vote of the shareowners as follows:

	Affirmative Votes	Votes Withheld
Keith D. Nosbusch	138,665,938	3,134,514
Barry C. Johnson, Ph.D.	139,692,613	2,107,839
William T. McCormick, Jr.	136,447,392	5,353,059

(ii) voted on a proposal to approve the selection by the Audit Committee of our Board of Directors of the firm of Deloitte & Touche LLP as our auditors for fiscal year 2007. The proposal was approved by a vote of the shareowners as follows:

Affirmative votes	138,531,648
Negative votes	1,995,136
Abstentions	1,273,666

42

Table of Contents

ROCKWELL AUTOMATION, INC.

Item 6. Exhibits
(a) Exhibits:

Exhibit 10.1*	-	Description of adjustments to the Company s financial performance goals for the Company s Incentive Compensation Plan and Annual Incentive Compensation Plan for Senior Executives for fiscal year 2007, contained in the Company s Current Report on Form 8-K dated April 10, 2007, is hereby incorporated by reference.
Exhibit 10.2	-	First Amendment to Purchase Agreement dated as of January 24, 2007 by and among Rockwell Automation, Inc., Rockwell Automation of Ohio, Inc., Rockwell Automation Canada Control Systems, Grupo Industrias Reliance S.A. de C.V., Rockwell Automation GmbH and Baldor Electric Company.
Exhibit 12	-	Computation of Ratio of Earnings to Fixed Charges for the Six Months Ended March 31, 2007.
Exhibit 15	-	Letter of Deloitte & Touche LLP regarding Unaudited Financial Information.
Exhibit 31.1	-	Certification of Periodic Report by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
Exhibit 31.2	-	Certification of Periodic Report by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
Exhibit 32.1	-	Certification of Periodic Report by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	-	Certification of Periodic Report by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement.

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.

ROCKWELL AUTOMATION, INC.
(Registrant)

Date: April 27, 2007

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

Date: April 27, 2007

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

Table of Contents

INDEX TO EXHIBITS

Exhibit No.	Exhibit
10.2	First Amendment to Purchase Agreement dated as of January 24, 2007 by and among Rockwell Automation, Inc., Rockwell Automation of Ohio, Inc., Rockwell Automation Canada Control Systems, Grupo Industrias Reliance S.A. de C.V., Rockwell Automation GmbH and Baldor Electric Company.
12	Computation of Ratio of Earnings to Fixed Charges for the Six Months Ended March 31, 2007.
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.
31.2	Certification of Periodic Report by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Periodic Report by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Periodic Report by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.