ROCKWELL AUTOMATION INC
Form 10-K
November 19, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2007. Commission file number 1-12383

Rockwell Automation, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**25-1797617**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1201 South 2nd Street **Milwaukee, Wisconsin**	**53204**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:

(414) 382-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large Accelerated Filer þ Accelerated Filer ¨ Non-accelerated Filer ¨

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

The aggregate market value of registrant s voting stock held by non-affiliates of registrant on March 31, 2007 was approximately $9.4 billion.

149,225,165 shares of registrant s Common Stock, par value $1 per share, were outstanding on October 31, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Shareowners of registrant to be held on February 6, 2008 is incorporated by reference into Part III hereof.

PART I

FORWARD-LOOKING STATEMENTS

This Annual 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 anc expressions may identify forward-looking statements. Actual results may differ materially from those projected as a result of certain risks and uncertainties, many of which are beyond our control, including but not limited to:

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

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

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

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

competitive product and pricing pressures;

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

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

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

our ability to attract and retain qualified personnel;

the uncertainties of litigation;

disruption of our North American distribution channel;

the availability and price of components and materials;

successful execution of our cost productivity and our globalization initiatives;

our ability to execute strategic actions, including acquisitions and integration of acquired businesses; and other risks and uncertainties, including but not limited to those detailed from time to time in our Securities and Exchange Commission filings.

These forward-looking statements reflect our beliefs as of the date of filing this report. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. See Item 1A. ***Risk Factors*** for more information.

Item 1. ***Business***

General

Rockwell Automation, Inc. (the Company or Rockwell Automation) is a leading global provider of industrial automation power, control and information solutions that help manufacturers achieve a competitive advantage in their businesses. The Company was incorporated in Delaware in 1996 in connection with a tax-free reorganization completed on December 6, 1996, pursuant to which we divested our former aerospace and defense businesses (the A&D Business) to The Boeing Company (Boeing). In the reorganization, the former Rockwell International Corporation (RIC) contributed all of its businesses, other than the A&D Business, to the Company and distributed all capital stock of the Company to RIC s shareowners. Boeing then acquired RIC. RIC was incorporated in 1928.

In September 2004, we sold our FirstPoint Contact business. In March 2006, we sold the assets of our ElectroCraft Engineered Solutions (ElectroCraft) business. Accordingly, we reflect the results of ElectroCraft as a discontinued operation for all periods presented.

In September 2006, we sold our 50 percent interest in Rockwell Scientific Company LLC (RSC). More information regarding the sale of our interest in RSC is contained in Note 2 in the Financial Statements.

On January 31, 2007, we divested our Dodge mechanical and Reliance Electric motors and motor repair services businesses. These were the principal businesses of our former Power Systems operating segment. We sold these businesses to Baldor Electric Company (Baldor) for $1.8 billion, comprised of $1.75 billion in cash and approximately 1.6 million shares of Baldor common stock. During 2007, we reported an after-tax gain on the sale of $868.2 million ($5.39 per diluted share). The results of operations and gain on sale of these businesses are reported in income from discontinued operations in the Financial Statements for all periods presented. Assets and liabilities sold are classified as assets available for sale and liabilities associated with assets available for sale in the Consolidated Balance Sheet as of September 30, 2006.

As used herein, the terms we , us , our , the Company or Rockwell Automation include subsidiaries and predecessors unless the context indi otherwise. Information included in this Annual Report on Form 10-K refers to our continuing businesses unless otherwise indicated.

Whenever an Item of this Annual Report on Form 10-K refers to information in our Proxy Statement for our Annual Meeting of Shareowners to be held on February 6, 2008 (the 2008 Proxy Statement), or to information under specific captions in Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations*** (*MD&A*), or in Item 8. ***Financial Statements and Supplementary Data*** (the Financial Statements), the information is incorporated in that Item by reference. All date references to years refer to our fiscal year unless otherwise stated.

Operating Segments

We have two operating segments: Architecture & Software and Control Products & Solutions. In 2007, our total sales were $5.0 billion. Financial information with respect to our operating segments, including their contributions to sales and operating earnings for each of the three years in the period ended September 30, 2007, is contained under the caption **Results of Operations** in *MD&A*, and in Note 18 in the Financial Statements.

Architecture & Software

Our Architecture & Software operating segment recorded sales of $2.2 billion (44 percent of our total sales) in 2007. The Architecture & Software segment contains all elements of our integrated control and information architecture capable of connecting the customer s entire manufacturing enterprise.

Architecture & Software s Integrated Architecture and Logix controllers perform multiple types of control and monitoring applications, including discrete, batch, continuous process, drive system, motion and machine safety across various industrial machinery, plants and processes, and supply real time information to supervisory software and plant-wide information systems.

Architecture and Software s products include control platforms, software, I/O devices, communication networks, high performance rotary and linear motion control systems, electronic operator interface devices, condition based monitoring systems, sensors, industrial computers and machine safety components. These products are deployed widely across industries to end users and OEMs to reduce total cost of ownership, maximize asset utilization, improve time to market and reduce manufacturing business risk.

The major competitors of our Architecture & Software operating segment include Emerson Electric Co., Mitsubishi Corp., Omron Corp., Schneider Electric SA and Siemens AG.

Architecture & Software s products are marketed primarily under the Allen-Bradley® and Rockwell Software® brand names. Major markets served include food and beverage, automotive, water/wastewater, oil and gas and home and personal care.

Architecture & Software is headquartered in Mayfield Heights, Ohio and has operations in North America, Europe, Middle East and Africa, Asia-Pacific and Latin America.

Control Products & Solutions

Our Control Products & Solutions operating segment recorded 2007 sales of $2.8 billion (56 percent of our total sales). The Control Products & Solutions segment combines a comprehensive portfolio of intelligent motor control and industrial control products with the customer support and application knowledge necessary to implement an automation or information solution on the plant floor. This comprehensive portfolio includes:

- Low voltage and medium voltage electro-mechanical and electronic motor starters, motor and circuit protection devices, AC/DC variable frequency drives, contactors, push buttons, signaling devices, termination and protection devices, relays and timers and condition sensors.

- Value-added packaged solutions, including configured drives, motor control centers and custom engineered panels for OEM and end-user applications.

- Automation and information solutions, including custom-engineered hardware and software systems for discrete, process, motion, drives and manufacturing information applications.

- Services designed to help maximize a customer s automation investment and provide total life-cycle support, including multi-vendor customer technical support and repair, asset management, training and predictive and preventative maintenance.

The major competitors of the Control Products & Solutions operating segment include ABB Ltd, Eaton Corporation, Emerson Electric Co., General Electric, Honeywell International, Invensys, Schneider Electric SA and Siemens AG.

Control Products & Solutions products are marketed primarily under the Allen Bradley® brand name. Major markets served include food and beverage, automotive, oil and gas, mining and home and personal care.

Control Products & Solutions is headquartered in Milwaukee, Wisconsin and has operations in North America, Europe, Middle East and Africa, Asia-Pacific and Latin America.

Geographic Information

In 2007, sales to customers in the United States accounted for 54 percent of our total sales. Our principal markets outside of the United States are in Canada, Italy, China, the United Kingdom, Germany, Brazil, Australia, Korea and France. See Item 1A. ***Risk Factors*** for a discussion of risks associated with our operations outside of the United States. Sales and property information by major geographic area for each of the past three years is contained in Note 18 in the Financial Statements.

Competition

Depending on the product or service involved, our competitors range from large diversified businesses that sell products outside of industrial automation, to smaller companies specializing in niche products and services. Factors that influence our competitive position are our broad product portfolio and scope of solutions, technology leadership, knowledge of customer applications, large installed base, established distribution network, quality of products and services, price and global presence.

Distribution

In North America, we sell our products primarily through independent distributors that typically do not carry products that compete with Allen-Bradley® products. We sell large systems and service offerings principally through a direct sales force, though opportunities are sometimes sourced through distributors or system integrators. Outside the United States, we sell products through a combination of direct sales, sales through distributors and sales through system integrators.

Research and Development

Our research and development spending for the years ended September 30, 2007, 2006 and 2005 was $143.1 million, $148.5 million, and $128.0 million, respectively. Customer-sponsored research and development was not significant in 2007, 2006, or 2005.

Employees

At September 30, 2007 we had approximately 20,000 employees. Approximately 10,500 were employed in the United States, and, of these employees, about three percent were represented by various local or national unions.

Raw Materials and Supplies

We purchase many items of equipment, components and materials used to produce our products from others. The raw materials essential to the conduct of each of our business segments generally are available at competitive prices. Although we have a broad base of suppliers and subcontractors, we depend upon the ability of our suppliers and subcontractors to meet performance and quality specifications and delivery schedules. See Item 1A. ***Risk Factors*** for a discussion of risks associated with our reliance on third party suppliers.

Backlog

Our total order backlog at September 30 was (in millions):

	2007	**2006**
Architecture & Software	$ 119.0	$ 107.6
Control Products & Solutions	796.7	525.4
	$ 915.7	$ 633.0

Backlog is not necessarily indicative of results of operations for future periods due to the short-cycle nature of most of our sales activities.

Environmental Protection Requirements

Information about the effect of compliance with environmental protection requirements and resolution of environmental claims is contained in Note 17 in the Financial Statements. See also Item 3. ***Legal Proceedings***.

Patents, Licenses and Trademarks

We own or license numerous patents and patent applications related to our products and operations. Various claims of patent infringement and requests for patent indemnification have been made to us. We believe that none of these claims will have a material adverse effect on our financial condition. While in the aggregate our patents and licenses are important in the operation of our business, we do not believe that loss or termination of any one of them would materially affect our business or financial condition. See Item 1A. ***Risk Factors*** for a discussion of risks associated with our intellectual property.

The Company s name and its registered trademark Rockwell Automation® is important to each of our business segments. In addition, we own other important trademarks that we use, such as Allen-Bradley®, A-B® and ICS Triplex for electronic controls and systems for industrial automation, and Rockwell Software® for our software products.

Seasonality

Our business segments are not subject to significant seasonality. However, the calendarization of our results can vary and may be affected by the seasonal capital spending patterns of our customers due to their annual capital budgeting processes and their working schedules combined with seasonal changes in the composition of the products and services our customers purchase.

Available Information

We maintain an Internet site at http://www.rockwellautomation.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act), as well as our annual report to shareowners and Section 16 reports on Forms 3, 4 and 5, are available free of charge on this site as soon as reasonably practicable after we file or furnish these reports with the Securities and Exchange Commission (SEC). All reports we file with the SEC are also available free of charge via EDGAR through the SEC s website at http://www.sec.gov. Our Guidelines on Corporate Governance and charters for our Board Committees are also available at our Internet site. These Guidelines and charters are also available in print to any shareowner upon request. The information contained on and linked from our Internet site is not incorporated by reference into this Annual Report on Form 10-K.

The certifications of our Chief Executive Officer and Chief Financial Officer required pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are included as Exhibits to this Annual Report on Form 10-K and were included as Exhibits to each of our Quarterly Reports on Form 10-Q filed during 2007. Our Chief Executive Officer certified to the New York Stock Exchange (NYSE) on March 8, 2007 pursuant to Section 303A.12 of the NYSE s listing standards, that he was not aware of any violation by the Company of the NYSE s corporate governance listing standards as of that date.

Item 1A. ***Risk Factors***

Our business, financial condition, operating results and cash flows can be impacted by numerous factors, many of which are beyond our control, including those set forth below and elsewhere in this Annual Report on Form 10-K. These and other risks and uncertainties could cause our results to vary materially from recent results or from our anticipated future results.

We generate a substantial portion of our revenues from international sales and are subject to the risks of doing business outside of the United States.

Approximately 46 percent of our revenues in 2007 were outside of the U.S. Future growth rates and success of our business depend in large part on continued growth in our non-U.S. sales. Numerous risks and uncertainties affect our non-U.S. operations. These risks and uncertainties include political and economic instability, changes in local governmental laws, regulations and policies, including those related to tariffs, investments, taxation, trade controls, employment regulations and repatriation of earnings, and enforcement of contract and intellectual property rights. International transactions may also involve increased financial and legal risks due to differing legal systems and customs, including risks of non-compliance with U.S. and local laws affecting our activities abroad. In addition, we are affected by changes in foreign currency exchange rates, inflation rates and interest rates. While these factors and their impacts are difficult to predict, any one or more of them could adversely affect our business, financial condition or operating results.

An inability to anticipate changes in customer preferences could result in decreased demand for our products.

Our success depends in part on our ability to anticipate and offer products that appeal to the changing needs and preferences of our customers in the various markets we serve. Developing new products requires high levels of innovation and the development process is often lengthy and costly. If we are not able to anticipate, identify, develop and market products that respond to changes in customer preferences, demand for our products could decline and our operating results would be adversely affected.

General economic, business or industry conditions may result in a decrease in our revenues and profitability.

Demand for our products is sensitive to changes in levels of global industrial production. As economic activity slows down or credit markets tighten, companies tend to reduce their levels of capital spending, resulting in decreased demand for our products. If this occurs, our revenues and profitability may be negatively affected.

Information technology infrastructure failures could significantly affect our business.

We depend heavily on our information technology infrastructure in order to achieve our business objectives. If we experience a problem that impairs this infrastructure, such as a computer virus, a problem with the functioning of an important IT application, or an intentional disruption of our IT systems, the resulting disruptions could impede our ability to record or process orders, manufacture and ship in a timely manner, or otherwise carry on our business in the ordinary course. Any such events could cause us to lose customers or revenue and could require us to incur significant expense to eliminate these problems and address related security concerns.

We are implementing a global Enterprise Resource Planning (ERP) system that will redesign and deploy new processes, organization structures and a common information system over a period of several years. Our first significant roll-outs of the system occurred at several of our U.S. locations in fiscal 2007, and will continue at additional locations in 2008. As we implement the ERP system, the new system may not perform as expected. This could have an adverse effect on our business.

There are additional risks in our growing solutions businesses.

Risks inherent in the sale of systems and solutions include assuming greater responsibility for project completion and success, defining and controlling contract scope, efficiently executing projects, and managing the efficiency and quality of our subcontractors. Our inability to control, manage, and mitigate these risks could adversely affect our results of operations.

The global industrial automation power, control and information products and services industry is highly competitive.

We face strong competition in all of our market segments in several significant respects, including pricing, product performance, quality, developing integrated systems and applications that address the business challenges faced by our customers, and customer service. The relative importance of these factors differs across the markets and product areas that we serve. Price competition in our served markets is intense. We seek to maintain acceptable pricing levels by continually developing advanced technologies for new products and product enhancements and offering complete solutions for our customers business problems. If we fail to keep pace with technological changes or provide high quality products and services, we may experience price erosion and lower revenues and margins. We expect the level of competition to remain high in the future, which could limit our ability to maintain or increase our market share or profitability.

A disruption to our distribution channel could have an adverse effect on our operating results.

In the United States and Canada, approximately 85 percent of our sales are through a limited number of third party distributors. While we maintain the right to appoint new distributors, any unplanned disruption to the existing channel could adversely affect our revenues and profitability. A disruption could be caused by the sale of a distributor to a competitor, financial instability of the distributor, or other events.

Potential liabilities and costs from litigation (including asbestos claims) could adversely affect our business.

Various lawsuits, claims and proceedings have been or may be asserted against us relating to the conduct of our business, including those pertaining to product liability, safety and health, employment and contract matters. We have been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos that was used in certain of our products many years ago. The uncertainties of litigation (including asbestos claims) and the uncertainties related to the collection of insurance coverage make it difficult to predict the ultimate resolution.

The inability to secure and maintain rights to intellectual property could harm our business and our customers.

We own the rights to many patents, trademarks, brand names and trade names that are important to our business. The loss of patents or licenses used in principal portions of our business may have an adverse effect on our results of operations. Expenses related to enforcing our intellectual property rights could be significant. In addition, others may assert intellectual property infringement claims against us or our customers. We regularly provide a limited intellectual property indemnity in connection with our terms and conditions of sale to our customers and in other types of contracts with third parties. Indemnification payments and legal costs to defend claims could have an adverse effect on our business.

We rely on third party suppliers, which creates certain risks and uncertainties.

Our manufacturing processes require that we buy a high volume of equipment, components and materials from third party suppliers. Our reliance on these suppliers involves certain risks, including:

- the cost of these purchases may change due to inflation, exchange rates or other factors;
- poor quality can adversely affect the reliability and reputation of our products; and
- a shortage of components or materials could adversely affect our manufacturing efficiencies and delivery capabilities, which could reduce sales and profitability.

Any of these uncertainties could adversely affect our profitability and ability to compete. We also maintain several single-source supplier relationships, because either alternative sources are not available or the relationship is advantageous due to performance, quality, support, delivery, capacity, or price considerations. Unavailability or delivery delays of single-source components or products could adversely affect our ability to ship the related product in desired quantities and in a timely manner. The effect of unavailability or delivery delays would be more severe if associated with our higher volume and more profitable products. Even where alternative sources of supply are available, qualifying the alternate suppliers and establishing reliable supplies could cost more or could result in delays and a loss of revenues.

Potential liabilities and costs for environmental remediation could adversely affect our business.

Our operations, both in the United States and abroad, are subject to regulation by various environmental regulatory authorities concerned with the impact of the environment on human health, the limitation and control of emissions and discharges into the air, ground and waters, the quality of air and bodies of water, and the handling, use and disposal of specified substances. Environmental laws and regulations can be complex and may change. Our financial responsibility for the cleanup or other remediation of contaminated property or for natural resource damages may extend to previously owned or used properties, waterways and properties owned by unrelated companies or individuals, as well as properties that we currently own and use, regardless of whether the contamination is attributable to prior owners. We have been named as a potentially responsible party at cleanup sites and may be so named in the future, and the costs associated with these current and future sites may be significant.

We must successfully defend any claims from taxing authorities related to our current and divested businesses to avoid an adverse effect on our tax expense and financial position.

We conduct business in many countries, which requires us to interpret the income tax laws and rulings in each of those taxing jurisdictions. Due to the subjectivity of tax laws between those jurisdictions as well as the

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subjectivity of factual interpretations, our estimates of income tax liabilities may differ from actual payments or assessments. Claims from taxing authorities related to these differences could have an adverse impact on our operating results and financial position. In connection with the divestiture of certain businesses in prior years, we retained tax liabilities and the rights to tax refunds for periods before the divestitures. As a result, from time to time, we may be required to make payments related to tax matters associated with those divested businesses.

Our competitiveness depends on successfully executing on our globalization and cost productivity initiatives.

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 capabilities, including supply chain and sourcing activities, product design, manufacturing, engineering, marketing and sales and support. These activities expose us to risks, including those related to political and economic uncertainties, transportation delays, labor market disruptions, and challenges to protect our intellectual property. 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.

We face the potential harms of natural disasters, terrorism, acts of war, international conflicts or other disruptions to our operations.

Natural disasters, acts or threats of war or terrorism, international conflicts, and the actions taken by the United States and other governments in response to such events could cause damage to or disrupt our business operations, our suppliers or our customers, and could create political or economic instability, any of which could have an adverse effect on our business. Although it is not possible to predict such events or their consequences, these events could decrease demand for our products, make it difficult or impossible for us to deliver products, or disrupt our supply chain.

Our business success depends on attracting and retaining qualified personnel.

Our success depends in part on the efforts and abilities of our senior management team and key employees. Their skills, experience and industry contacts significantly benefit our operations and administration. The failure to attract and retain members of our senior management team and key employees could have a negative effect on our operating results.

Risks associated with acquisitions could have an adverse effect on us.

We have acquired, and will continue to acquire, businesses in an effort to enhance shareowner value. Acquisitions involve risks and uncertainties, including:

- difficulties in integrating the acquired business, retaining the acquired business customers, and achieving the expected benefits of the acquisition, such as revenue increases, cost savings and increases in geographic or product presence, in the desired time frames;
- loss of key employees of the acquired business;
- difficulties implementing and maintaining consistent standards, controls, procedures, policies and information systems; and
- diversion of management s attention from other business concerns.

Future acquisitions could cause us to incur debt, dilution, contingent liabilities, increased interest expense, restructuring charges and amortization expenses related to intangible assets.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

At September 30, 2007, we operated 53 plants, principally in North America. We also had 267 sales and administrative offices and a total of 26 warehouses, service centers and other facilities. The aggregate floor space of our facilities was approximately 10.2 million square feet. Of this floor space, we owned approximately 24 percent and leased approximately 76 percent. Manufacturing space occupied approximately 4.1 million square feet. Our Architecture & Software segment occupied approximately 0.8 million square feet, our Control Products & Solutions segment occupied approximately 2.8 million square feet and the remaining approximately 0.5 million square feet of manufacturing space was shared by our operating segments. At September 30, 2007, approximately 311,000 square feet of floor space was not in use, mostly in owned facilities.

In November 2005, we sold and leased back 8 properties in North America comprising approximately 1.6 million square feet. See Note 17 in the Financial Statements for more information.

There are no major encumbrances (other than financing arrangements, which in the aggregate are not significant) on any of our plants or equipment. In our opinion, our properties have been well maintained, are in sound operating condition and contain all equipment and facilities necessary to operate at present levels.

Item 3. ***Legal Proceedings*.**

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

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

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 and held that Mr. Stone was 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. However, as described below, the Civilian Board of Contract Appeals has denied RIC s claim seeking reimbursement of certain of those costs.

On January 8, 1991, RIC filed suit in the United States Court of Federal Claims against the DOE, seeking recovery of $6.5 million of award fees that it alleges are owed to it under the terms of its contract with the DOE for management and operation of the Plant during the period October 1, 1988 through September 30, 1989. On January 18, 2007, the Court entered judgment in RIC s favor, which will require the DOE to pay us $3.1 million, plus interest since 1991. This judgment is no longer subject to appeal, and we received $6.0 million from the DOE on July 2, 2007. On May 4, 2005, RIC filed another claim with the DOE, seeking recovery of $11.3 million in unreimbursed costs incurred in defense of the Stone suit. On September 30, 2005, the DOE Contracting Officer denied that claim and demanded repayment of $4 million in previously reimbursed Stone defense costs. On November 10, 2005, RIC appealed both aspects of the Contracting Officer s decision regarding Stone defense costs to the Civilian Board of Contract Appeals. On July 9, 2007, the Board ruled that the DOE is entitled to be repaid the previously reimbursed Stone defense costs and that RIC cannot recover its unreimbursed costs. Further proceedings before the Board to determine the amount to be repaid are in their early stages. Any appeals from the Board s rulings will be filed only after these further proceedings are concluded.

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. On August 2, 2007, the Court executed and approved a final agreed order amending the Court s 1997 judgment. As a result, we paid a civil penalty of $2.0 million and made donations for Supplemental Environmental Projects (SEPs) totaling $5.5 million. We also entered into a separate agreement with the Kentucky Natural Resource Trustees and paid $2.5 million in natural resource damages. The final order also replaces the PCB cleanup levels established by the Court in 1997 with the remediation standards and procedures embodied in a new Kentucky regulation codified at 401 KAR 100:030. We will continue our remediation efforts under these new standards. This final agreed order dispenses with all issues remaining open from the Court s 1997 judgment and conclusively resolves any and all claims by the State of Kentucky pertaining to the original action.

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 majority of cases do not allege exposure to any asbestos-containing product that we or our predecessors manufactured or sold.

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 or products of divested businesses for which we are responsible, we nevertheless believe we have meritorious defenses, in substantial part due to the integrity of the products, the encapsulated nature of any asbestos-containing components, and the lack of any impairing medical condition on the part of many claimants. We defend those cases vigorously. Historically, we have been dismissed from the vast majority of these claims with no payment to claimants.

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

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

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

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

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

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

Item 4A. ***Executive Officers of the Company***

The name, age, office and position held with the Company and principal occupations and employment during the past five years of each of the executive officers of the Company as of November 7, 2007 are:

Name, Office and Position, and Principal Occupations and Employment	**Age**
Keith D. Nosbusch Chairman of the Board since February 2005 and President and Chief Executive Officer since February 2004; Senior Vice President and President, Rockwell Automation Control Systems prior thereto	56
Sujeet Chand Senior Vice President and Chief Technical Officer since September 2005; Vice President and Chief Technical Officer prior thereto	49
John D. Cohn Senior Vice President, Strategic Development and Communications	53
Kent G. Coppins Vice President and General Tax Counsel	54
Theodore D. Crandall Senior Vice President and Chief Financial Officer since October 2007; Interim Chief Financial Officer from April 2007 to October 2007; Senior Vice President since February 2004; Senior Vice President, Control Products & Solutions (formerly Components and Packaged Applications Group) prior thereto	52
David M. Dorgan Vice President and Controller	43
Steven A. Eisenbrown Senior Vice President since February 2004; Senior Vice President, Architecture & Software (formerly Automation Control and Information Group) prior thereto	54
Steven W. Etzel Vice President and Treasurer since November 2007; Assistant Treasurer from November 2006 to November 2007; Director, Finance from January 2006 to November 2006; Vice President, Risk Management and Financial Planning from July 2003 to December 2005; Assistant Treasurer prior thereto	47
Douglas M. Hagerman Senior Vice President, General Counsel and Secretary since May 2004; Litigation partner and Co-Chair of the Securities Litigation, Enforcement and Regulation Practice Group at Foley & Lardner LLP (law firm) prior thereto	46
John P. McDermott Senior Vice President since February 2004 and Senior Vice President, Global Sales and Marketing (formerly Global Sales and Solutions) since October 2005; Senior Vice President, Global Manufacturing Solutions Group of Rockwell Automation Control Systems prior thereto	49
John M. Miller Vice President and Chief Intellectual Property Counsel since October 2004; Associate Intellectual Property Counsel prior thereto	40
Rondi Rohr-Dralle Vice President, Corporate Development	51
Robert A. Ruff Senior Vice President since February 2004; Senior Vice President, Americas Sales prior thereto	59
Susan J. Schmitt Senior Vice President, Human Resources since July 2007; Director, Human Resources United Kingdom and European Functions, Kellogg Company (producer of cereal and convenience foods) from August 2006 to July 2007; Vice President Human Resources, Kellogg Company prior thereto	44
A. Lawrence Stuever Vice President and General Auditor since June 2003; Vice President, Compensation prior thereto	55
Martin Thomas Senior Vice President, Operations and Engineering Services since February 2007; Vice President, Operations and Engineering Services from November 2005 to February 2007; President, General Electric s Trailer Fleet Services and Modular Space businesses (leasing for modular space and tractor trailers) prior thereto	49

There are no family relationships, as defined by applicable SEC rules, between any of the above executive officers and any other executive officer or director of the Company. No officer of the Company was selected pursuant to any arrangement or understanding between the officer and any person other than the Company. All executive officers are elected annually.

PART II

Item 5. ***Market for the Company s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is listed on the New York Stock Exchange and trades under the symbol ROK . On October 31, 2007, there were 29,941 shareowners of record of our common stock.

The following table sets forth the high and low sales price of our common stock on the New York Stock Exchange-Composite Transactions reporting system during each quarter of our fiscal years ended September 30, 2007 and 2006:

	2007		2006	
Fiscal Quarters	**High**	**Low**	**High**	**Low**
First	$ 66.02	$ 57.26	$ 60.67	$ 50.35
Second	65.31	56.73	73.96	58.52
Third	70.71	57.30	79.47	62.61
Fourth	75.60	64.28	74.67	53.49

We declare and pay dividends at the sole discretion of our Board of Directors. During 2007, we declared and paid aggregate cash dividends of $1.16 ($0.29 per quarter) per common share. During 2006, we declared and paid aggregate cash dividends of $0.90 ($0.225 per quarter) per common share. In 2005, we declared and paid aggregate cash dividends of $0.78 ($0.165 for each of the first and second quarters and $0.225 for each of the third and fourth quarters) per common share.

The table below sets forth information with respect to purchases made by or on behalf of the Company of shares of Company common stock during the three months ended September 30, 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)**
July 1 31, 2007	870,000	$ 72.33	870,000	$ 221,201,789
August 1 31, 2007	2,060,600	68.56	2,060,600	79,917,550
September 1 30, 2007	778,840	68.90	777,938	26,323,344
Total	3,709,440	69.52	3,708,538	

(1) All of the shares purchased during the quarter ended September 30, 2007 were acquired pursuant to the repurchase programs described in (3) below, except for 902 shares that we acquired in September 2007 from an employee. These shares were acquired in connection with a stock swap exercise of employee 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 approved by our Board of Directors effective through September 30, 2007. On December 6, 2006, the Board of Directors approved our repurchase of up to 3 million additional shares between December 29, 2006 and December 31, 2007. On February 7, 2007, the Board of Directors approved an additional $1.0 billion of share repurchases. At this time, no shares remained subject to repurchase under our September 6, 2006 or our December 6, 2006 repurchase programs. 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.

Item 6. ***Selected Financial Data***

The following table sets forth selected consolidated financial data of our continuing operations. The data should be read in conjunction with *MD&A* and the Financial Statements. The consolidated statement of operations data for each of the following five years ended September 30, the related consolidated balance sheet data and other data have been derived from our audited consolidated financial statements.

	Year Ended September 30,				
	2007(a)	**2006(b)**	**2005**	**2004**	**2003(c)**
	(in millions, except per share data)				
Consolidated Statement of Operations Data:					
Sales	$ 5,003.9	$ 4,556.4	$ 4,111.5	$ 3,644.0	$ 3,266.3
Interest expense	63.4	56.6	45.8	41.7	52.5
Income from continuing operations before accounting change	569.3	529.3	447.7	316.1	258.9
Earnings per share from continuing operations before accounting change:					
Basic	3.59	3.00	2.45	1.71	1.40
Diluted	3.53	2.94	2.39	1.65	1.36
Cumulative effect of accounting change per diluted share(d)		(0.10)			
Cash dividends per share	1.16	0.90	0.78	0.66	0.66
Consolidated Balance Sheet Data: (at end of period)					
Total assets	$ 4,545.8	$ 4,735.4	$ 4,525.1	$ 4,213.3	$ 4,006.3
Short-term debt and current portion of long-term debt	521.4	219.0	0.1	0.2	8.7
Long-term debt	405.7	748.2	748.2	757.7	764.0
Shareowners equity	1,742.8	1,918.2	1,649.1	1,861.0	1,586.8
Other Data:					
Capital expenditures	$ 131.0	$ 122.3	$ 102.7	$ 70.8	$ 78.3
Depreciation	93.5	96.2	109.0	113.2	119.0
Other intangible asset amortization	24.4	21.2	18.4	24.8	19.9

(a) Includes costs of $43.5 million ($27.7 million after tax, or $0.17 per diluted share) related to various restructuring activities designed to execute on our cost productivity initiatives and to advance our globalization strategy. See Note 14 in the Financial Statements for more information.

(b) Includes a gain on sale of our 50 percent interest in Rockwell Scientific Company LLC (RSC) of $19.9 million ($12.0 million after tax, or $0.07 per diluted share).

(c) Includes a reduction in the income tax provision of $69.4 million, or $0.37 per diluted share, related to the settlement of a U.S. federal research and experimentation credit refund claim.

(d) Effective September 30, 2006, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), which clarifies the guidance included in Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). The application of FIN 47 resulted in a charge of $28.6 million ($17.7 million after tax, or $0.10 per diluted share) in 2006.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Results of Operations

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 in addition to 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.

Overview

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

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

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

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

levels of global industrial production;

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

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

U. S. Industrial Economic Trends

In 2007, sales to U.S. customers accounted for 54 percent of our total sales. The various indicators we use to gauge the direction and momentum of our served U.S. markets include:

Industrial Equipment Spending 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. Global Insights uses this statistic along with other economic indicators to forecast industrial equipment spending. These measures over the longer term have proven to have reasonable predictive value as a directional indicator of our domestic growth.

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

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

The table below depicts the continued general gradual improvement in U.S. Industrial Equipment Spending since December 2004. Capacity Utilization has remained above 80 percent since December 2005 while the PMI has sustained a rate over 50 since December 2004. Although we have seen consistent strength over the past few years in the manufacturing indicators we follow, we are seeing a deceleration in the rate of manufacturing growth in the North American market.

	Equipment Spending (in billions)	Industrial Capacity Utilization (percent)	PMI
Fiscal 2007			
Quarter ended:			
September 2007	$ 180.4	82.1	52.0
June 2007	176.0	81.8	56.0
March 2007	168.1	81.4	50.9
December 2006	167.5	81.6	51.4
Fiscal 2006			
Quarter ended:			
September 2006	169.2	82.0	52.7
June 2006	168.5	82.3	54.0
March 2006	161.5	81.4	55.3
December 2005	162.8	81.3	55.5
Fiscal 2005			
Quarter ended:			
September 2005	158.2	79.2	57.9
June 2005	150.7	80.6	54.1
March 2005	152.6	79.9	55.3
December 2004	146.5	79.4	58.5

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

Non-U.S. Regional Trends

In 2007, sales to non-U.S. customers accounted for 46 percent of our total sales. Outside the U.S., demand for our products and services is principally driven by the strength of the industrial economy in each region and by our customers ability and propensity to invest in their manufacturing assets. These customers may include both multinational companies with expanding global presence and a growing number of local companies. Recent strength in demand for our products and services has, in part, been driven by investments in infrastructure in developing economies, investments in basic materials production capacity in response to higher commodity pricing and expanding consumer markets. We continued to see strong demand in China, India and Latin America during 2007. We also saw considerable growth in Europe during 2007, as we benefited from our targeted growth investments in customer-facing resources and improving macro-economic conditions. We expect strong growth in Latin America, Europe and the emerging economies in Asia-Pacific to continue into 2008.

Revenue by Geographic Region

The table below presents our actual sales for the year ended September 30, 2007 by geographic region and the change in sales from the year ended September 30, 2006 (in millions, except percentages):

	Year Ended September 30, 2007[1]	Change vs. Year Ended September 30, 2006	Change in Organic Sales vs. Year Ended September 30, 2006[2]
United States	$ 2,687.0	3%	3%
Canada	341.1	3%	(1%)
Europe, Middle East and Africa	1,054.2	27%	14%
Asia-Pacific	588.8	13%	7%
Latin America	332.8	23%	19%
Total sales	$ 5,003.9	10%	6%

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

(2) Organic sales are sales excluding the effect of changes in currency exchange rates and acquisitions. See **Supplemental Sales Information** for information on this non-GAAP measure.

Industry Views

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

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

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

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

Outlook for 2008

The following is a summary of our key objectives for 2008:

- continue to grow profitably and diversify our business, by aggressively pursuing growth in an expanded addressable market and enhancing our market access both organically and through synergistic acquisitions;

- execute our cost productivity initiatives;

expand our global business footprint with a focus on production efficiencies and enhanced customer experience;

remain focused on our ERP system implementation across the globe with minimal disruption to our business and clients; and

sustain the growth of our integrated control and information architecture by accelerating the proliferation and adoption rate and enhancing features and functionality.

Our outlook for 2008 is based on anticipated strength in customer demand in Europe and emerging markets. We believe our investments in technology leadership, expanded served markets and stronger global presence are creating more worldwide opportunities for growth than ever before, despite a deceleration in the rate of manufacturing growth in the North American market. This ongoing diversification of our revenue base, combined with our recent acquisitions, cause us to be optimistic that 2008 will be another good year. We remain intensely focused on executing our growth and productivity initiatives as we continue to evolve our global footprint, not just in manufacturing, but in engineering, back office and customer support infrastructure.

As of the date of filing this report, based upon current economic conditions and business trends, we expect revenue to grow by 10 to 12 percent in 2008. We anticipate acquisitions will contribute approximately 3 percentage points to this growth rate and that our services and solutions business will continue to become a larger portion of our revenue. We also believe that we will continue to benefit from the strong momentum in our growth initiatives, particularly process applications and safety. We expect continued growth from the commercial investments we have made in EMEA and Latin America, continued strength in emerging markets and improved performance in the Asia-Pacific region, especially China, offset by somewhat slower rates of growth in developed economies.

As of the date hereof, we also expect 2008 diluted earnings per share to be in the range of $4.25 to $4.45. This includes an expected effective income tax rate that will average about 28 to 29 percent for the full year, subject to quarterly variability. We anticipate an earnings benefit from volume leverage, productivity initiatives and a decrease in our year over year average share count. These items will be partially offset by our investments in new products, services, technologies and expertise to serve new applications and markets, combined with inflation in material and employee costs and the globalization of our business model. We also expect acquisitions will put downward pressure on operating margin and that, combined with purchase accounting expense, will have a negative impact on diluted earnings per share. We also plan to generate free cash flow of approximately 95 percent of net income in 2008.

Summary of Results of Operations

	Year Ended September 30,		
	2007	2006	2005
		(in millions)	
Sales			
Architecture & Software	$ 2,221.3	$ 2,059.2	$ 1,917.7
Control Products & Solutions	2,782.6	2,497.2	2,193.8
Total	$ 5,003.9	$ 4,556.4	$ 4,111.5
Segment operating earnings(a)			
Architecture & Software	$ 587.7	$ 533.9	$ 517.0
Control Products & Solutions	397.0	339.9	237.2
Purchase accounting depreciation and amortization	(16.4)	(10.6)	(10.0)
General corporate-net	(72.8)	(90.7)	(68.5)
Special charges(b)	(43.5)		
Interest expense	(63.4)	(56.6)	(45.8)
Gain on sale of investment(c)		19.9	
Income from continuing operations before income taxes and cumulative effect of accounting change	788.6	735.8	629.9
Provision for income taxes	(219.3)	(206.5)	(182.2)
Income from continuing operations before cumulative effect of accounting change	569.3	529.3	447.7
Income from discontinued operations(d)	918.5	95.4	92.3
Cumulative effect of accounting change(e)		(17.7)	
Net income	$ 1,487.8	$ 607.0	$ 540.0
Diluted earnings per share:			
Continuing operations	$ 3.53	$ 2.94	$ 2.39
Discontinued operations	5.70	0.53	0.49
Cumulative effect of accounting change		(0.10)	
Net income	$ 9.23	$ 3.37	$ 2.88
Diluted weighted average outstanding shares	161.2	179.9	187.2

(a) Information regarding how we define segment operating earnings is included in Note 18 in the Financial Statements.

(b) Amount in 2007 represents costs ($27.7 million after tax, or $0.17 per diluted share) related to various restructuring activities designed to execute on our cost productivity initiatives and to advance our globalization strategy. See Note 14 in the Financial Statements for more information.

(c) Amount in 2006 represents a gain on sale ($12.0 million after tax, or $0.07 per diluted share) related to the sale of our 50 percent interest in RSC. See Note 2 in the Financial Statements for more information.

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

(e) Effective September 30, 2006, we adopted FIN 47, resulting in a charge of $28.6 million ($17.7 million after tax, or $0.10 per diluted share). See Note 17 in the Financial Statements for more information.

2007 Compared to 2006

(in millions, except per share amounts)	**2007**	**2006**	**Change**
Sales	$ 5,003.9	$ 4,556.4	$ 447.5
Income from continuing operations before accounting change	569.3	529.3	40.0
Diluted earnings per share from continuing operations before accounting change	3.53	2.94	0.59

Sales

Sales increased 10 percent in 2007 compared to 2006. Organic sales increased 6 percent, as foreign currency translation and acquisitions added 3 and 1 percentage points to the growth rate, respectively. Sales in the United States increased 3 percent in 2007 compared to 2006. Full year sales were strong in Europe and Latin America, as organic growth rates were 14 percent and 19 percent, respectively. Asia Pacific sales grew organically by 7 percent over 2006, while Canada reported a 1 percent decline in organic growth. We continued to see our growth investments in EMEA, Latin America and in the life sciences industry deliver incremental revenue. These increases were partially offset by a sales decline in the North American automotive industry due to weakness in our important Detroit customer base.

General Corporate Net

General corporate expenses were $72.8 million in 2007 compared to $90.7 million in 2006. The decrease is due primarily to interest income on the proceeds of the Power Systems sale. Expenses during 2007 also include charges of $13.9 million related to environmental remediation costs at legacy sites, partially offset by a $12.1 million dividend related to an equity interest we acquired as a result of the divestiture of our FirstPoint Contact business.

Special Charges

Special charges of $43.5 million include costs related to various restructuring actions designed to execute on our cost productivity initiatives and to advance our globalization strategy. Actions included workforce reductions, realignment of administrative functions and rationalization and consolidation of global operations. We expect total cash expenditures to approximate $39.0 million in connection with these actions, of which we paid $5.3 million through September 30, 2007. Non-cash special charges include write-downs of certain inventory, machinery and equipment totaling $4.5 million.

Interest Expense

Interest expense was $63.4 million in 2007 compared to $56.6 million in 2006. The increase was due to higher average commercial paper borrowings in 2007 as well as higher interest rates associated with our interest rate swap (see Note 6 in the Financial Statements).

Income Taxes

The effective tax rate for 2007 was 27.8 percent compared to 28.1 percent in 2006. The 2007 effective tax rate differed from the federal statutory rate of 35 percent because we benefited from lower non-U.S. tax rates, resolved certain tax matters and claims related to the closure of the 2005 U.S. federal audit cycle and various state tax audits and made other provision adjustments.

The 2006 effective tax rate was lower than the federal statutory rate of 35 percent because we reversed $27.2 million ($0.15 per diluted share) of valuation allowances on capital loss carryforwards, settled audit matters with the U.S. Internal Revenue Service for the years 2003 and 2004, benefited from lower tax rates outside the U.S., received Foreign Sales Corporation (FSC) and Extra Territorial Income (ETI) tax benefits and made other provision adjustments.

See Note 16 in the Financial Statements for a complete reconciliation of the United States statutory tax rate to the effective tax rate and more information on tax events in 2007 and 2006 affecting the respective tax rates.

Income from Continuing Operations before Accounting Change

Income from continuing operations in 2007 increased 8 percent from 2006. The increase is due primarily to increased sales, lower retirement benefits expense, improved operating margins and increased dividend and interest income, partially offset by special charges, additional environmental charges and higher interest expense.

Discontinued Operations

Amounts reported for discontinued operations primarily relate to the operating results of the principal businesses of our former Power Systems operating segment for periods before the divestiture and the gain on sale of the principal businesses of our former Power Systems operating segment. Net income on operating activities of Power Systems was $42.3 million in 2007 and $100.1 million in 2006. We reported an after-tax gain on the sale of Power Systems of $868.2 million ($5.39 per share) in 2007.

We also reported after-tax income of $8.0 million during 2007 related to other discontinued operations activities, compared to a $4.7 million loss from other discontinued operations activities in 2006. See also Note 13 in the Financial Statements for more information on discontinued operations.

Architecture & Software

(in millions, except percentages)	2007	2006	Change
Sales	$ 2,221.3	$ 2,059.2	$ 162.1
Segment operating earnings	587.7	533.9	53.8
Segment operating margin	26.5%	25.9%	0.6pts

Sales

Architecture & Software sales increased 8 percent compared to 2006. Organic growth accounted for 5 percent of the increase, as foreign currency translation added 3 percentage points to the growth rate. We continued to see growth in process applications, safety and the CompactLogix product offering.

Operating Margin

Segment operating margin increased by 0.6 points in 2007 compared to 2006 due to the successful execution of our productivity initiatives, price increases and lower retirement benefits expense, partially offset by inflation and spending to support growth.

Control Products & Solutions

(in millions, except percentages)	2007	2006	Change
Sales	$ 2,782.6	$ 2,497.2	$ 285.4
Segment operating earnings	397.0	339.9	57.1
Segment operating margin	14.3%	13.6%	0.7pts

Sales

Control Products & Solutions sales increased 11 percent compared to 2006. Organic growth contributed 7 percent of the increase, as foreign currency translation and acquisitions added 4 percentage points to the growth rate. Year over year results benefited from strong growth in our power-centric and solutions businesses.

Operating Margin

Segment operating margin increased 0.7 points in 2007 compared to 2006 due to productivity efforts, price increases and lower retirement benefits expense, partially offset by inflation and spending to support growth.

2006 Compared to 2005

(in millions, except per share amounts)	**2006**	**2005**	**Change**
Sales	$ 4,556.4	$ 4,111.5	$ 444.9
Income from continuing operations before accounting change	529.3	447.7	81.6
Diluted earnings per share from continuing operations before accounting change	2.94	2.39	0.55

Sales

Sales increased 11 percent in 2006 compared to 2005 with growth in both our Architecture & Software and Control Products & Solutions segments. Total sales were not significantly affected year over year by changes in currency exchange rates. Organic sales in the U.S. and Canada increased by 11 percent in 2006 compared to 2005, despite being negatively impacted by the weakness in the North American automotive market in the second half of the year. Organic sales in the Asia-Pacific region grew by 9 percent in 2006 compared to 2005 with particularly strong growth in the emerging economies, including China and India. Latin America organic sales grew by 19 percent in 2006 compared to 2005, led by strength in the oil and gas and mining industries. Organic sales in Europe grew by 7 percent in 2006 compared to 2005. Europe experienced considerable growth during the second half of 2006. Our operations in Europe benefited from our investment in customer facing resources and improving macro-economic conditions.

General Corporate Net

General corporate expenses were $90.7 million in 2006 compared to $68.5 million in 2005. The increase includes $9.7 million of stock compensation expense, lower interest income and higher contributions to the Rockwell Automation Charitable Corporation.

Interest Expense

Interest expense was $56.6 million in 2006 compared to $45.8 million in 2005. The increase was due to our commercial paper borrowings during 2006, as well as higher interest rates associated with our interest rate swap (see Note 6 in the Financial Statements).

Income Taxes

The effective tax rate for 2006 was 28.1 percent compared to 28.9 percent in 2005. The 2006 effective tax rate differed from the federal statutory rate of 35 percent due to the reversal of $27.2 million ($0.15 per diluted share) of valuation allowances on capital loss carryforwards, settlement of audit matters with the U.S. Internal Revenue Service for the years 2003 and 2004, lower non-U.S. tax rates, FSC and ETI tax benefits and other provision adjustments.

The effective tax rate for 2005 was lower than the federal statutory tax rate of 35 percent due to a benefit of $19.3 million ($0.10 per diluted share) related to the settlement of audit matters with the U.S. Internal Revenue Service for the years 1998 through 2002, utilization of foreign tax credits, FSC and ETI tax benefits and other provision adjustments.

See Note 16 in the Financial Statements for a complete reconciliation of the United States statutory tax rate to the effective tax rate and more information on tax events in 2006 and 2005 affecting the respective tax rates.

Income from Continuing Operations before Accounting Change

Income from continuing operations before accounting change increased 18 percent to $529.3 million, compared to 2005. The increase is due to higher volume, productivity programs, favorable pricing and a slightly lower effective tax rate, partially offset by inflation and higher growth initiative spending in comparison to the prior year. Income from continuing operations before accounting change includes $16.7 million (after tax) of share-based compensation expense due to the adoption of a new accounting standard, SFAS 123(R), *Share-Based Payment* (SFAS 123(R)). Additionally, 2006 results include $13.4 million (after tax) of increased pension and retiree medical expense, lower interest income, higher charitable contributions, and higher interest expense compared to 2005. Income from continuing operations before accounting change in 2005 includes an after-tax benefit of $8.4 million related to an insurance settlement and an after-tax charge of $11.1 million related to restructuring activities in Europe.

Discontinued Operations

Amounts reported for discontinued operations primarily relate to the results of our former Power Systems operating segment. Power Systems sales in 2006 were $989.2 million, an increase of 15 percent compared to $860.7 million in 2005, due to growth in both our Dodge mechanical and Reliance electrical business groups. Sales at Power Systems benefited from continued strong momentum resulting from high energy and commodity prices. These higher prices resulted in the businesses predominantly U.S. based customers continuing to invest in capacity expansion after several years of under-investment and reduced capital spending.

Power Systems net income was $100.1 million, an increase of 41 percent compared to $70.8 million in 2005 due to higher volume, productivity initiatives, a balanced dynamic between price and cost, and lower restructuring costs, somewhat offset by inflation. Net income in 2006 includes share-based compensation expense of $2.5 million and increased pension and retiree medical expense of $3.5 million compared to 2005. Net income in 2005 includes a charge of $3.1 million associated with a facility closure and the corresponding write-down of property to its fair value.

Discontinued operations in 2006 also includes charges related to our former aerospace and defense businesses operation of the Rocky Flats facility, the loss on our sale of the ElectroCraft business, and ElectroCraft s loss from operations. Discontinued operations in 2005 includes tax matters and ElectroCraft s loss from operations. See Note 13 in the Financial Statements for more information regarding Discontinued Operations.

Architecture & Software

(in millions, except percentages)	**2006**	**2005**	**Change**
Sales	$ 2,059.2	$ 1,917.7	$ 141.5
Segment operating earnings	533.9	517.0	16.9
Segment operating margin	25.9%	27.0%	(1.1)pts

Sales

Architecture & Software sales increased 7 percent in 2006 compared to 2005. Our Logix platform business grew about 20 percent, despite the slowdown in sales to our traditional North American automotive market during the second half of the year.

Operating Margin

Segment operating margin fell by 1.1 points due to higher employee expenses, inflation and higher growth initiative spending in comparison to the prior year, partially offset by higher volume, productivity programs, favorable pricing, and lower restructuring costs. Segment operating earnings in 2006 include $7.0 million of stock compensation expense due to the adoption of SFAS 123(R). Additionally, 2006 results include $7.8 million of increased pension and retiree medical expense compared to 2005. Segment operating earnings in 2005 include a benefit of $5.6 million related to an insurance settlement and a charge of $6.3 million related to restructuring activities in Europe.

Control Products & Solutions

(in millions, except percentages)	**2006**	**2005**	**Change**
Sales	$ 2,497.2	$ 2,193.8	$ 303.4
Segment operating earnings	339.9	237.2	102.7
Segment operating margin	13.6%	10.8%	2.8pts

Sales

Control Products & Solutions sales increased 14 percent due to growth in both our control products and our solutions businesses. This growth benefited from the strength of our power-centric businesses.

Operating Margin

Segment operating margin increased by 2.8 points due to higher volume, productivity programs, favorable pricing and lower restructuring costs, partially offset by higher employee expenses, inflation and higher growth initiative spending in comparison to the prior year. Segment operating earnings in 2006 include $8.8 million of stock compensation expense due to the adoption of SFAS 123(R). Additionally, 2006 results include $13.7 million of increased pension and retiree medical expense compared to 2005. Segment operating earnings in 2005 include a benefit of $6.7 million related to an insurance settlement and a charge of $10.2 million related to restructuring activities in Europe.

Financial Condition

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

	Year Ended September 30,		
	2007	**2006**	**2005**
Cash provided by (used for):			
Operating activities	$ 444.9	$ 313.3	$ 548.3
Investing activities	1,398.9	52.7	(96.3)
Financing activities	(1,673.1)	(556.1)	(551.7)
Effect of exchange rate changes on cash	38.8	(1.2)	(3.1)
Cash provided by (used for) continuing operations	$ 209.5	$ (191.3)	$ (102.8)

The following table summarizes free cash flow (in millions):			
Cash provided by continuing operating activities	$ 444.9	$ 313.3	$ 548.3
Capital expenditures of continuing operations	(131.0)	(122.3)	(102.7)
Tax payments related to the gain on divestiture of Power Systems	190.0		
Excess income tax benefit from stock option exercises	27.1	47.4	
Free cash flow	$ 531.0	$ 238.4	$ 445.6

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 11 in the 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 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 defined, as one measure to monitor and evaluate performance. Our definition of free cash flow may be different from definitions used by other companies.

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. Cash flows from the operating activities of our discontinued operations are reported in our statement of cash flows net of their separately calculated income tax effects. U.S. Federal and state income taxes paid as a result of the gain on sale of the principal businesses of our former Power Systems operating segment have been classified within continuing operations consistent with the cash proceeds. These taxes paid in 2007 have been excluded from free cash flow to present free cash flow that is representative of the performance of our continuing businesses.

Free cash flow was $531.0 million for the year ended September 30, 2007 compared to $238.4 million for the year ended September 30, 2006. The increase in free cash flow was largely the result of the $450.0 million voluntary contribution to our U.S. qualified pension plan trust in 2006, compared to $8.0 million of voluntary contributions in 2007. This increase was partially offset by increased working capital requirements during 2007.

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 the cash proceeds to repurchase shares of our common stock to offset the dilutive effect of the divestiture, to pay taxes on the gain on sale and to acquire Industrial Control Services Group Limited (ICS Triplex).

In 2007, we repurchased approximately 23.8 million shares of our common stock of which 0.1 million shares did not settle until October 2007. The total cost of these shares was $1,506.1 million, of which $7.5 million was recorded in accounts payable at September 30, 2007. This is compared to purchases of approximately 12.2 million shares of our common stock at a cost of $743.1 million in 2006. Of these purchases, 0.4 million shares amounting to $20.6 million did not settle until October 2006 and were recorded in accounts payable at September 30, 2006. We anticipate repurchasing stock in 2008, the amount of which will depend ultimately on business conditions, stock price and other cash requirements. At September 30, 2007 we had approximately $26.3 million remaining for stock repurchases under an existing board authorization. On November 7, 2007, our Board of Directors authorized us to repurchase up to an additional $1.0 billion of shares of our common stock.

We expect future significant uses of cash to include repayments of short-term borrowings and the $350.0 million notes due in the second quarter of fiscal 2008, repurchases of common stock, dividends to shareowners, capital expenditures and acquisitions of businesses and may include additional contributions to our pension plans. We expect capital expenditures in 2008 to be about $145 million. We expect to fund these future uses of cash with a combination of existing cash balances, cash generated by operating activities, long-term borrowings, commercial paper borrowings or proceeds from the sale of our securities in the capital markets. On November 7, 2007, our Board of Directors authorized us to issue up to $500 million of long-term debt. The proceeds of this debt, if issued, primarily would be used to reduce outstanding debt, including retiring the $350 million notes due in the second quarter of fiscal 2008.

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 34.7 percent at September 30, 2007 and 33.5 percent at September 30, 2006. Our debt-to-total-capital ratio at September 30, 2007 was influenced by the adoption of SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* that occurred during 2007.

Commercial paper is our principal source of short-term financing. Commercial paper borrowings outstanding at September 30, 2007 were $173.0 million. The weighted average interest rate on these borrowings was 5.1 percent. At September 30, 2006, commercial paper borrowings outstanding were $219.0 million, with a weighted average interest rate of 5.4 percent.

In October 2004, we entered into a five-year $600.0 million unsecured revolving credit facility. Our credit facility remains in effect and we had not drawn down under it at September 30, 2007 or 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 September 30, 2007 and 2006. In addition to our $600.0 million credit facility, short-term unsecured credit facilities of approximately $172.3 million at September 30, 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 September 30, 2007:

Credit Rating Agency	Short Term Rating	Long Term Rating	Outlook
Standard & Poor s	A-1	A	Stable
Moody s	P-1	A2	Stable
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 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.

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 facilities to provide short-term funding. In such event, the cost of borrowings under the unsecured committed credit facilities could be higher than the cost of commercial paper borrowings.

Cash dividends to shareowners were $184.7 million ($1.16 per share) in 2007, $159.3 million ($0.90 per share) in 2006 and $142.7 million ($0.78 per share) in 2005. Although we declare and pay dividends at the sole discretion of our Board of Directors, we expect to pay quarterly dividends in 2008 of at least $0.29 per outstanding share.

A summary of our contractual cash obligations at September 30, 2007 are (in millions):

				Payments by Period			
	Total	2008	2009	2010	2011	2012	Thereafter
Long-term debt and interest(a)	$ 2,095.3	$ 387.9	$ 27.1	$ 27.1	$ 27.1	$ 27.1	$ 1,599.0
Minimum operating lease payments(b)	279.5	70.7	54.8	35.7	25.8	21.7	70.8
Postretirement benefits(c)	234.0	24.3	23.6	23.0	22.7	21.7	118.7
Pension funding contribution(d)	34.8	34.8					
Purchase obligations(e)	150.6	17.1	16.7	15.4	13.8	12.7	74.9
Total	$ 2,794.2	$ 534.8	$ 122.2	$ 101.2	$ 89.4	$ 83.2	$ 1,863.4

(a) The amounts for long-term debt assume that the respective debt instruments will be outstanding until their scheduled maturity dates. The amounts include interest, but exclude the amounts to be paid under an interest rate swap, the ($1.8) million fair value adjustment recorded for the interest rate swap as permitted by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and the unamortized discount of $44.5 million. See Note 6 in the Financial Statements for more information regarding our long-term debt.

(b) See Note 17 in the Financial Statements for information regarding our November 2005 sale-leaseback transaction.

(c) Our postretirement plans are unfunded. Amounts reported are estimates of future benefit payments, to the extent estimable.

(d) Amounts reported for pension funding contributions reflect current estimates of known commitments. Amounts subsequent to 2008 are excluded from the summary above, as these amounts cannot be estimated with certainty. The minimum contribution for our U.S. pension plan as required by the Employee Retirement Income Security Act (ERISA) is zero. We may make additional contributions to this plan at the discretion of management.

(e) This item includes long-term obligations under agreements with various service providers.

Supplemental Sales Information

We translate sales of subsidiaries operating outside of the United States using exchange rates effective during the respective period. Therefore, changes in currency rates affect our reported sales. Sales by businesses we acquired also affect our reported sales. We believe that organic sales, defined as sales excluding the effects of changes in currency exchange rates and acquisitions, which is a non-GAAP financial measure, provides useful information to investors because it reflects regional performance from the activities of our businesses without the effect of changes in currency rates or acquisitions made during the period. 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 currency exchange rates that were in effect in the prior year. We determine the effect of acquisitions by excluding sales in the current period for which there are no sales in the comparable prior period. Organic sales growth is calculated by comparing organic sales to reported sales in the prior year. No adjustments have been made to 2006 sales for acquisitions as the effect was not significant. 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):

	Year Ended September 30, 2007			Year Ended September 30, 2006			Year Ended September 30, 2005
	Sales	Effect of Changes in Currency and Acquisitions	Organic Sales	Sales	Effect of Changes in Currency	Organic Sales	Sales
United States	$ 2,687.0	$ (10.3)	$ 2,676.7	$ 2,599.0	$ (6.6)	$ 2,592.4	$ 2,308.9
Canada	341.1	(11.2)	329.9	332.1	(21.3)	310.8	303.5
Europe, Middle East and Africa	1,054.2	(103.9)	950.3	832.6	25.8	858.4	804.0
Asia-Pacific	588.8	(30.7)	558.1	521.4	1.2	522.6	479.8
Latin America	332.8	(10.1)	322.7	271.3	(14.5)	256.8	215.3
Total Company Sales	$ 5,003.9	$ (166.2)(a)	$ 4,837.7	$ 4,556.4	$ (15.4)	$ 4,541.0	$ 4,111.5

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

Year Ended September 30, 2007			Year Ended September 30, 2006			Year Ended September 30, 2005
Sales	Effect of Changes in Currency	Organic Sales	Sales	Effect of Changes in Currency	Organic Sales	Sales

		and Acquisitions					
Architecture & Software	$ 2,221.3	$ (57.1)	$ 2,164.2	$ 2,059.2	$ (2.1)	$ 2,057.1	$ 1,917.7
Control Products & Solutions	2,782.6	(109.1)	2,673.5	2,497.2	(13.3)	2,483.9	2,193.8
Total Company Sales	$ 5,003.9	$ (166.2)(a)	$ 4,837.7	$ 4,556.4	$ (15.4)	$ 4,541.0	$ 4,111.5

(a) Comprised of $116.6 million related to the effect of changes in currency exchange rates and $49.6 million related to acquisitions.

Critical Accounting Policies and Estimates

We have prepared the 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 consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. We believe the following critical accounting policies could have the most significant effect on our reported results or require subjective or complex judgments by management. In prior years, we listed impairment of long-lived assets as a critical accounting policy and estimate. The most subjective portion of this balance was the Reliance trademark relating to the principal businesses of our former Power Systems operating segment. With the sale of these businesses, including the related trademark, impairment of long-lived assets is no longer considered a critical accounting policy and estimate.

Retirement Benefits

Pension Benefits

Pension costs and obligations are actuarially determined and are influenced by assumptions used to estimate these amounts, including the discount rate, the expected rate of return on plan assets, the assumed annual compensation increase rate, the retirement rate, the mortality rate and the employee turnover rate. Changes in any of the assumptions and the amortization of differences between the assumptions and actual experience will affect the amount of pension expense in future periods.

Our global pension expense in 2007 was $46.3 million compared to $71.6 million in 2006. Approximately 57 percent of our 2007 global pension expense relates to our U.S. pension plan. The actuarial assumptions used to determine our 2007 U.S. pension expense included the following: discount rate of 6.50 percent (compared to 5.25 percent for 2006); expected rate of return on plan assets of 8.00 percent (compared to 8.50 percent for 2006); and an assumed compensation increase rate of 4.19 percent (compared to 4.06 percent for 2006). The increase in the U.S. discount rate partially offset by the decrease in the expected rate of return on the U.S. plan assets accounts for the majority of the decline in our global pension expense.

In 2007, we made voluntary contributions of $8.0 million to our primary U.S. qualified pension plan trust compared to $450.0 million in 2006.

The Pension Protection Act of 2006 was signed into law in August 2006. Interpretive guidance is still evolving. We are currently evaluating this legislation and the effect it will have on our future pension contributions.

We estimate our pension expense will be approximately $29.6 million in 2008, a decrease of approximately $16.7 million from 2007. For 2008, our U.S. discount rate will remain at 6.50 percent. The discount rate was set as of our June 30th measurement date and was determined by modeling a portfolio of bonds that match the expected cash flow of our benefit plans. Our assumed rate of return on U.S. plan assets will remain at 8.00 percent. We considered actual returns on plan assets over the long term as well as the current and expected mix of plan investments in setting this assumption. We intend, over time, to change the U.S. plan s mix of investments by increasing the weighting in debt securities. We have assumed a U.S. compensation increase rate of 4.15 percent in 2008 compared to 4.19 percent used in 2007. We established this rate by analyzing all elements of compensation that are pension eligible earnings.

The following chart illustrates the estimated change in benefit obligation and net periodic pension cost assuming a change of 25 basis points in the key assumption for our U.S. pension plans (in millions):

	Pension Benefits	
	Change in Projected Benefit Obligation	Change in Net Periodic Benefit Cost
Discount Rate	$ 74.9	$ 8.8

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More information regarding pension benefits is contained in Note 12 in the Financial Statements.

Other Postretirement Benefits

We estimate the costs and obligations for postretirement benefits other than pensions using assumptions, including the discount rate and, for plans other than our primary U.S. postretirement healthcare benefit program, expected trends in the cost for healthcare services. Changes in these assumptions and differences between the assumptions and actual experience will affect the amount of postretirement benefit expense recognized in future periods. The discount rate used to calculate our 2007 other postretirement benefits expense was 6.50 percent (compared to 5.00 percent in 2006). For 2008, the discount rate assumption for other postretirement benefit expense will decrease to 6.25 percent. The discount rate was set as of our June 30th measurement date and was determined by modeling a portfolio of bonds that match the expected cash flow of our benefit plans.

Effective October 1, 2002, we amended our primary U.S. postretirement healthcare benefit program in order to mitigate our share of the increasing cost of postretirement healthcare services. As a result of this amendment, our obligation is less sensitive to increasing healthcare costs resulting from inflationary trends since January 1, 2005.

Net periodic benefit cost recorded in continuing operations in 2007 was $13.0 million compared to $18.7 million in 2006. We expect net periodic benefit cost in 2008 of approximately $15.5 million and the estimated postretirement projected benefit obligation to approximate $227.4 million. The increase in net periodic benefit cost is due primarily to the decrease in the discount rate by 25 basis points to 6.25 percent.

More information regarding postretirement benefits is contained in Note 12 in the Financial Statements.

Revenue Recognition

For approximately 90 percent of our consolidated sales, we record sales when all of the following have occurred: an agreement of sale exists; pricing is fixed or determinable; collection is reasonably assured; and product has been delivered and acceptance has occurred, as may be required according to contract terms, or services have been rendered. We recognize revenue for software products and related services in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition,* as issued by the American Institute of Certified Public Accountants.

We recognize substantially all of the remainder of our sales as construction-type contracts using either the percentage-of-completion or completed contract methods of accounting. We record sales relating to these contracts using the percentage-of-completion method when we determine that progress toward completion is reasonably and reliably estimable; we use the completed contract method for all others. Under the percentage-of-completion method, we recognize sales and gross profit as work is performed using either (i) the relationship between actual costs incurred and total estimated costs at completion or (ii) units-of-delivery. Under the percentage-of-completion method, we adjust sales and gross profit for revisions of estimated total contract costs or revenue in the period the change is identified. We record estimated losses on contracts when they are identified.

We use contracts and customer purchase orders to determine the existence of an agreement of sale. We use shipping documents and customer acceptance, when applicable, to verify delivery. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess collectibility based on the creditworthiness of the customer as determined by credit evaluations and analysis, as well as the customer s payment history.

Returns, Rebates and Incentives

Our primary incentive program provides distributors with cash rebates or account credits based on agreed amounts that vary depending on the end user or original equipment manufacturer (OEM) customer to whom our distributor ultimately sells the product. We also offer various other incentive programs that provide distributors and direct sale customers with cash rebates, account credits or additional products and services based on meeting specified program criteria. Certain distributors are offered a right to return product, subject to contractual limitations.

We record accruals for customer returns, rebates and incentives at the time of revenue recognition based primarily on historical experience. Adjustments to the accrual may be required if actual returns, rebates and incentives differ from historical experience or if there are changes to other assumptions used to estimate the accrual. A critical assumption used in estimating the accrual for our primary distributor rebate program is the time period from when revenue is recognized to when the rebate is processed. If the time period were to change by 10 percent, the effect would be an adjustment to the accrual of approximately $6.0 million.

Returns, rebates and incentives are recognized as a reduction of sales if distributed in cash or customer account credits. Rebates and incentives are recognized in cost of sales for additional products and services to be provided. Accruals are reported as a current liability in our balance sheet or, where a right of set-off exists, as a reduction of accounts receivable. The accrual for customer returns, rebates and incentives was $128.6 million at September 30, 2007 and $111.2 million at September 30, 2006, of which $8.1 million at September 30, 2007 and $8.5 million at September 30, 2006 was included as an offset to accounts receivable.

Fair Value Measurements

We have increased the use of fair value measurements in our financial statements due to recent accounting pronouncements and obligations retained in connection with the sale of the principal businesses of our former Power Systems operating segment.

Share-based compensation

We account for share-based compensation under SFAS 123(R). Compensation costs are based on the grant-date fair value of the instruments using a valuation model, and are generally recognized on a straight line basis over the vesting term. We estimate the average risk-free interest rate, expected dividend yield, expected volatility and expected term of the compensation instrument outstanding in order to determine fair value. The valuation model is most sensitive to the expected volatility and term assumptions. Share-based compensation expense net of the related income tax benefit amounted to $18.8 million in 2007 and $16.7 million in 2006.

Asset Retirement Obligations

We account for conditional asset retirement obligations under Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). We accrue for costs related to a legal obligation associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, development or the normal operation of the long-lived asset. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional. Identified conditional asset retirement obligations include asbestos abatement and remediation of soil contamination beneath current and previously divested facilities. We estimate conditional asset retirement obligations using site-specific knowledge and historical industry expertise. A significant change in the costs or timing could have a significant effect on our estimates. The application of FIN 47 resulted in a charge, net of tax, of $17.7 million included in the Consolidated Statement of Operations for the year ended September 30, 2006 as the cumulative effect of a change in accounting principle. We recorded these liabilities in the Consolidated Balance Sheet, which totaled $5.3 million in other current liabilities and $21.8 million in other liabilities at September 30, 2007 and $28.7 million in other liabilities at September 30, 2006.

Indemnifications

In conjunction with the sale of our Dodge mechanical and Reliance Electric motors and motor repair services businesses, we agreed to indemnify Baldor for costs and damages related to certain legacy legal, environmental and asbestos matters of these businesses arising before January 31, 2007, for which the maximum exposure would be capped at the purchase price. We recorded a liability under FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others An Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34* (FIN 45), related to these indemnification obligations with an offset to the gain on sale. A significant change in the costs or timing could have a significant effect on our estimates. We estimate the potential future payments we could incur under these indemnifications may approximate $32.5 million, of which $9.6 million has been accrued in other current liabilities and $16.1 million has been accrued in other liabilities at September 30, 2007.

Derivatives

Our accounting method for derivative instruments is based on SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). The fair value of all derivative financial instruments is recorded in the balance sheet, which is based on the quoted market prices for contracts with similar maturities. We use foreign currency forward exchange contracts and interest rate swap contracts to manage foreign currency and interest rate risks. We use foreign currency forward exchange contracts to offset changes in the amount of future cash flows associated with intercompany transactions expected to occur within the next three years (cash flow hedges) and changes in the fair value of certain assets and liabilities resulting from intercompany loans and other transactions with third parties denominated in foreign currencies. We sometimes use interest rate swap contracts to manage the balance of fixed and floating rate debt. Unrealized gains on derivative instruments are recorded in other current assets and total $5.2 million and $1.9 million at September 30, 2007 and 2006, respectively. Unrealized losses on derivative instruments are recorded in other current liabilities and total $38.2 million and $8.5 million at September 30, 2007 and 2006, respectively.

Purchase Accounting

When we acquire a business, we account for the assets and liabilities acquired at fair value at the date of acquisition in accordance with SFAS No. 141, *Business Combinations,* and SFAS No. 142, *Goodwill and Other Intangible Assets*. The valuation of acquired identifiable intangible assets and determination of their amortizable lives requires the use of management judgment and assumptions. See Note 2 in the Financial Statements for a discussion of acquisitions in 2007 and 2006.

Litigation, Claims and Contingencies

We record liabilities for litigation, claims and contingencies when an obligation is probable and when we have a basis to reasonably estimate the value of an obligation. We also record liabilities for environmental matters based on estimates for known environmental remediation exposures. The liabilities include accruals for sites we currently own or operate or formerly owned or operated and third-party sites where we were determined to be a potentially responsible party. At third-party sites where more than one potentially responsible party has been identified, we record a liability for our estimated allocable share of costs related to our involvement with the site as well as an estimated allocable share of costs related to the involvement of insolvent or unidentified parties. At environmental sites where we are the only responsible party, we record a liability for the total estimated costs of remediation. We do not discount future expenditures for environmental remediation obligations to their present value. Environmental liability estimates may be affected by changing determinations of what constitutes an environmental exposure or an acceptable level of cleanup. To the extent that remediation procedures change, additional contamination is identified, or the financial condition of other potentially responsible parties is adversely affected, the estimate of our environmental liabilities may change.

Our reserve for environmental matters, net of related receivables, was $29.8 million at September 30, 2007 and $37.0 million at September 30, 2006. The change is primarily due to a legal settlement and changes in estimated remediation costs at three sites as a result of new information.

Our recorded liability for environmental matters relates almost entirely to businesses formerly owned by us (legacy businesses) for which we retained the responsibility to remediate. The nature of our current business is such that the likelihood of new environmental exposures that could result in a significant charge to earnings is low. As a result of remediation efforts at legacy sites and limited new environmental matters, we expect that gradually, over a long period of time, our environmental obligations will decline. However, changes in remediation procedures at existing legacy sites or discovery of contamination at additional sites could result in increases to our environmental obligations.

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. As described in Item 3. ***Legal Proceedings***, we 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. See Item 3 for further discussion.

Our principal self-insurance programs include product liability where we are self-insured up to a specified dollar amount. Claims exceeding this amount up to specified limits are covered by policies issued by commercial insurers. We estimate the reserve for product liability claims, using our claims experience for the periods being valued. Adjustments to the product liability reserves may be required to reflect emerging claims experience and other factors such as inflationary trends or the outcome of claims. The reserve for product liability claims was $24.0 million at September 30, 2007 and $25.8 million at September 30, 2006.

More information regarding litigation, claims and contingencies is contained in Note 17 in the Financial Statements.

Income Taxes

We operate in numerous taxing jurisdictions and are subject to regular examinations by U.S. Federal, state and foreign jurisdictions. Additionally, we have retained tax liabilities and the rights to tax refunds in connection with various divestitures of businesses in prior years. Our income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which we do business. Due to the subjectivity of interpretations of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, our estimates of income tax liabilities may differ from actual payments or assessments.

While we have support for the positions we take on our tax returns, taxing authorities are increasingly asserting interpretations of laws and facts and challenging cross jurisdictional transactions. Cross jurisdictional transactions between our subsidiaries involving the transfer price for products, services, and/or intellectual property as well as various U.S. state tax matters comprise our more significant income tax exposures. We regularly assess our position with regard to tax exposures and record liabilities for uncertain tax positions and related interest and penalties, if any, according to the principles of SFAS No. 5, *Accounting for Contingencies* (SFAS 5). We have recorded an accrual of $104.5 million at September 30, 2007 and $85.1 million at September 30, 2006 that reflects our estimate of the likely outcome of current and future audits, which is included in other liabilities in our Consolidated Balance Sheet. A final determination of these tax audits or changes in our estimates may result in additional future income tax expense or benefit. In the first quarter of 2008, we will adopt FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). Upon adoption of this standard, we will assess our position with regard to tax exposures and uncertain tax positions under its requirements rather than under SFAS 5. The adoption of FIN 48 as of October 1, 2007 will result in a decrease to shareowners equity of up to $10 million.

We have recorded a valuation allowance for the majority of our deferred tax assets related to net operating loss and capital loss carryforwards (Carryforwards) and certain temporary differences in the amount of $42.6 million at September 30, 2007 and $36.8 million at September 30, 2006 based on the projected profitability of the entity in the respective tax jurisdiction. The valuation allowance is based on an evaluation of the uncertainty that the Carryforward amount will be realized. Our income would increase if we determine we will be able to use more Carryforwards than currently expected.

At the end of each interim reporting period, we estimate a base effective tax rate, which is the effective tax rate that we expect for the full fiscal year based on our most recent forecast of pretax income, permanent book and tax differences and global tax planning strategies. We use this base rate to provide for income taxes on a year-to-date basis, excluding the effect of significant unusual or extraordinary items or items that are reported net of their related tax effects. We recognize the tax effect of significant unusual or extraordinary items in the period in which they are realizable.

More information regarding income taxes is contained in Note 16 in the Financial Statements.

Recent Accounting Pronouncements

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

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to market risk during the normal course of business from changes in interest rates and foreign currency exchange rates. We manage exposure to these risks through a combination of normal operating and financing activities and derivative financial instruments in the form of interest rate swap contracts and foreign currency forward exchange contracts.

Interest Rate Risk

In addition to existing cash balances and cash provided by normal operating activities, we use a combination of short-term and long-term debt to finance operations. We are exposed to interest rate risk on certain of these debt obligations.

Our short-term debt obligations relate to commercial paper borrowings and bank borrowings. At September 30, 2007, we had outstanding commercial paper borrowings of $173.0 million with original maturities of three days at a weighted average interest rate of 5.1 percent; at September 30, 2006, we had outstanding commercial paper borrowings of $219.0 million with original maturities of three days at a weighted average interest rate of 5.4 percent. The weighted average interest rate on the commercial paper borrowings was 5.3 percent during 2007 and 4.8 percent during 2006. As these obligations mature, we issued, and anticipate continuing to issue, additional short-term commercial paper obligations to refinance all or part of these borrowings. Changes in market interest rates on commercial paper borrowings affect our results of operations. In 2007 and 2006, a 10 percent increase in average market interest rates would not have had a significant effect on our results of operations.

We had outstanding fixed rate long-term debt obligations with carrying values of $753.9 million at September 30, 2007 and $748.2 million at September 30, 2006. The fair value of this debt was $777.3 million at September 30, 2007 and $803.7 million at September 30, 2006. The potential reduction in fair value on such fixed-rate debt obligations from a hypothetical 10 percent increase in market interest rates would not be material to the overall fair value of the debt. We currently have no plans to repurchase our outstanding fixed-rate instruments before their maturity and, therefore, fluctuations in market interest rates would not have an effect on our results of operations or shareowners equity.

In September 2002, we entered into an interest rate swap contract that effectively converted our $350.0 million aggregate principal amount of 6.15% notes, payable in 2008, to floating rate debt based on six-month LIBOR. The floating rate was 7.80 percent at September 30, 2007. A hypothetical 10 percent change in market interest rates would not be significant to the overall fair value of the swap or our results of operations.

Foreign Currency Risk

We are exposed to foreign currency risks that arise from normal business operations. These risks include the translation of local currency balances of foreign subsidiaries, intercompany loans with foreign subsidiaries and transactions denominated in foreign currencies. Our objective is to minimize our exposure to these risks through a combination of normal operating activities and foreign currency forward exchange contracts to manage our exposure on transactions denominated in currencies other than the applicable functional currency. In addition, we enter into contracts to hedge certain intercompany transactions forecasted to occur within the next three years. Contracts are executed with creditworthy banks and are denominated in currencies of major industrial countries. We do not enter into derivative financial instruments for speculative purposes. We do not hedge our exposure to the translation of reported results of foreign subsidiaries from local currency to U.S. dollars. A 10 percent adverse change in the underlying foreign currency exchange rates would not be significant to our financial condition or results of operations.

We record all derivatives on the balance sheet at fair value regardless of the purpose for holding them. Derivatives that are not designated as hedges for accounting purposes are adjusted to fair value through earnings. For derivatives that are hedges, depending on the nature of the hedge, changes in fair value are either offset by changes in the fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. We recognize the ineffective portion of a derivative s change in fair value in earnings immediately.

At September 30, 2007 and 2006, we had outstanding foreign currency forward exchange contracts primarily consisting of contracts relating to the euro, British pound sterling, Swiss franc, Singapore dollar and South Korean won. The use of these contracts allows us to manage transactional exposure to exchange rate fluctuations as the gains or losses incurred on the foreign currency forward exchange contracts will offset, in whole or in part, losses or gains on the underlying foreign currency exposure. A hypothetical 10 percent adverse change in underlying foreign currency exchange rates associated with these contracts would not be significant to our financial condition or results of operations.

The following table indicates the total U.S. dollar equivalents (in millions) of net transactional foreign exchange exposure related to (short) long contracts outstanding by currency:

	September 30,	
	2007	**2006**
Euro	$ (427.8)	$ (399.8)
British pound sterling	(273.0)	(35.7)
Swiss franc	59.5	12.7
Singapore dollar	(55.6)	
South Korean won	(15.1)	(21.5)
Other	0.7	1.5
Total	$ (711.3)	$ (442.8)

All of the contracts included in the table above will have offsetting effects from actual transactions that have occurred or will occur in the future. We designated certain of these contracts related to intercompany transactions forecasted to occur through October 2010 as cash flow hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The remaining foreign exchange contracts offset actual underlying receivables and payables in our Consolidated Balance Sheet.

Item 8. ***Financial Statements and Supplementary Data***

CONSOLIDATED BALANCE SHEET

(in millions)

	September 30, 2007	September 30, 2006
Assets		
Current Assets		
Cash and cash equivalents	$ 624.2	$ 408.1
Receivables	927.7	743.6
Inventories	504.7	411.5
Deferred income taxes	170.2	160.4
Other current assets	155.2	113.0
Assets available for sale (Note 13)		351.4
Total current assets	2,382.0	2,188.0
Property, net	510.3	468.5
Goodwill	858.5	693.8
Other intangible assets, net	243.4	126.1
Deferred income taxes	25.3	
Prepaid pension	384.3	596.6
Other assets	142.0	110.2
Assets available for sale (Note 13)		552.2
Total	$ 4,545.8	$ 4,735.4
Liabilities and Shareowners Equity		
Current Liabilities		
Short-term debt	$ 173.2	$ 219.0
Current portion of long-term debt	348.2	
Accounts payable	498.5	395.7
Compensation and benefits	198.4	167.7
Income taxes payable	79.8	51.0
Other current liabilities	446.4	348.4
Liabilities associated with assets available for sale (Note 13)		111.5
Total current liabilities	1,744.5	1,293.3
Long-term debt	405.7	748.2
Retirement benefits	401.4	322.6
Deferred income taxes		75.5
Other liabilities	251.4	236.1
Liabilities associated with assets available for sale (Note 13)		141.5
Commitments and contingent liabilities (Note 17)		
Shareowners Equity		
Common stock (shares issued: 216.4)	216.4	216.4
Additional paid-in capital	1,247.5	1,193.6
Retained earnings	4,098.1	2,856.2
Accumulated other comprehensive loss	(169.7)	(75.3)
Common stock in treasury, at cost (shares held: 2007, 67.0; 2006, 45.6)	(3,649.5)	(2,272.7)
Total shareowners equity	1,742.8	1,918.2

Total	$ 4,545.8	$ 4,735.4

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share amounts)

	Year Ended September 30, 2007	2006	2005
Sales	$ 5,003.9	$ 4,556.4	$ 4,111.5
Cost of sales	(2,906.6)	(2,656.4)	(2,448.0)
Gross profit	2,097.3	1,900.0	1,663.5
Selling, general and administrative expenses	(1,278.6)	(1,141.0)	(997.4)
Other income (Note 15)	33.3	33.4	9.6
Interest expense	(63.4)	(56.6)	(45.8)
Income from continuing operations before income taxes and cumulative effect of accounting change	788.6	735.8	629.9
Income tax provision (Note 16)	(219.3)	(206.5)	(182.2)
Income from continuing operations before cumulative effect of accounting change	569.3	529.3	447.7
Income from discontinued operations (Note 13)	918.5	95.4	92.3
Cumulative effect of accounting change (Note 17)		(17.7)	
Net income	$ 1,487.8	$ 607.0	$ 540.0
Basic earnings per share:			
Continuing operations before accounting change	$ 3.59	$ 3.00	$ 2.45
Discontinued operations	5.78	0.54	0.50
Cumulative effect of accounting change		(0.10)	
Net income	$ 9.37	$ 3.44	$ 2.95
Diluted earnings per share:			
Continuing operations before accounting change	$ 3.53	$ 2.94	$ 2.39
Discontinued operations	5.70	0.53	0.49
Cumulative effect of accounting change		(0.10)	
Net income	$ 9.23	$ 3.37	$ 2.88
Weighted average outstanding shares:			
Basic	158.7	176.6	183.1
Diluted	161.2	179.9	187.2

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

	Year Ended September 30, 2007	2006	2005
Continuing Operations:			
Operating Activities:			
Net income	$ 1,487.8	$ 607.0	$ 540.0
Cumulative effect of accounting change		17.7	
Income from discontinued operations	(918.5)	(95.4)	(92.3)
Income from continuing operations before accounting change	569.3	529.3	447.7
Adjustments to arrive at cash provided by operating activities:			
Depreciation	93.5	96.2	109.0
Amortization of intangible assets	24.4	21.2	18.4
Share-based compensation expense	29.0	25.6	
Retirement benefit expense	59.3	90.3	68.3
Pension trust contributions	(49.1)	(472.2)	(185.6)
Deferred income taxes	(43.7)	3.1	118.1
Net (gain) loss on dispositions of property, business and investment (Note 15)	(5.4)	(20.2)	4.0
Income tax benefit from the exercise of stock options	1.3	1.1	72.1
Excess income tax benefit from the exercise of stock options	(27.1)	(47.4)	
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency adjustments:			
Receivables	(95.1)	(60.4)	(34.6)
Inventories	(67.7)	(6.2)	9.3
Accounts payable	68.4	41.8	13.4
Compensation and benefits	7.8	(39.9)	15.6
Income taxes	(161.0)	133.6	(64.4)
Other assets and liabilities	41.0	17.4	(43.0)
Cash Provided by Operating Activities	444.9	313.3	548.3
Investing Activities:			
Capital expenditures	(131.0)	(122.3)	(102.7)
Acquisition of businesses, net of cash acquired	(249.5)	(39.5)	
Proceeds from sales of property, business and investment	1,750.5	196.8	7.1
Proceeds from sales of available for sale securities	32.1		
Proceeds from return of investment	2.6	24.1	
Other investing activities	(5.8)	(6.4)	(0.7)
Cash Provided by (Used for) Investing Activities	1,398.9	52.7	(96.3)
Financing Activities:			
Net (repayments) issuance of short-term debt	(46.0)	218.9	(0.1)
Repayments of long-term debt of foreign subsidiaries	(14.7)		
Cash dividends	(184.7)	(159.3)	(142.7)
Purchases of treasury stock (See Note 10 for non-cash financing activities)	(1,519.3)	(722.5)	(499.2)
Proceeds from the exercise of stock options	64.9	60.1	91.6
Excess income tax benefit from the exercise of stock options	27.1	47.4	
Other financing activities	(0.4)	(0.7)	