

ROCKWELL AUTOMATION INC

Form 10-K

November 19, 2012

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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, 2012

Commission file number 1-12383

Rockwell Automation, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

25-1797617
(I.R.S. Employer
Identification No.)

1201 South 2nd Street

Milwaukee, Wisconsin

(Address of principal executive offices)

Registrant's telephone number, including area code:

(414) 382-2000

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

Title of each class

53204
(Zip Code)

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 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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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.

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting
company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The aggregate market value of registrant's voting stock held by non-affiliates of registrant on March 31, 2012 was approximately \$11.3 billion.

139,309,300 shares of registrant's Common Stock, par value \$1 per share, were outstanding on October 31, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Shareowners of registrant to be held on February 5, 2013 is incorporated by reference into Part III hereof.

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

- macroeconomic factors, including global and regional business conditions, the availability and cost of capital, the cyclical nature of our customers’ capital spending, sovereign debt concerns and currency exchange rates;
- laws, regulations and governmental policies affecting our activities in the countries where we do business;
- the successful development of advanced technologies and demand for and market acceptance of new and existing products;
- the availability, effectiveness and security of our information technology systems;
- competitive products, services and solutions and pricing pressures, and our ability to provide high quality products, services and solutions;
- a disruption of our operations due to natural disasters, acts of war, strikes, terrorism, social unrest or other causes;
- intellectual property infringement claims by others and the ability to protect our intellectual property;
- our ability to successfully address claims by taxing authorities in the various jurisdictions where we do business;
- our ability to attract and retain qualified personnel;
- our ability to manage costs related to employee retirement and health care benefits;
- the uncertainties of litigation, including liabilities related to the safety and security of the products, services, and solutions we sell;
- our ability to manage and mitigate the risks associated with our solutions business;
- a disruption of our distribution channels;
- the availability and price of components and materials;
- the successful integration and management of acquired businesses;
- the successful execution of our cost productivity and globalization initiatives; and
- other risks and uncertainties, including but not limited to those detailed from time to time in our Securities and Exchange Commission (SEC) filings.

These forward-looking statements reflect our beliefs as of the date of filing this report. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. See Item 1A. Risk Factors 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 for their businesses. The Company continues the business founded as the Allen-Bradley Company in 1903. The privately-owned Allen-Bradley Company was a leading North American manufacturer of industrial automation equipment when the former Rockwell International Corporation (RIC) purchased it in 1985. Our products and services are designed to meet our customers’ needs to reduce total cost of ownership, maximize asset utilization, improve time to market and reduce manufacturing business risk.

The Company was incorporated in Delaware 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, 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.

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

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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 5, 2013 (the 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 and quarters refer to our fiscal year and quarters unless otherwise stated.

Operating Segments

We have two operating segments: Architecture & Software and Control Products & Solutions. In 2012, our total sales were \$6.3 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, 2012, is contained under the caption Results of Operations in MD&A, and in Note 17 in the Financial Statements.

Our Architecture & Software operating segment is headquartered in Mayfield Heights, Ohio and Singapore, and our Control Products & Solutions operating segment is headquartered in Milwaukee, Wisconsin. Both operating segments conduct business globally. Major markets served by both segments include transportation, oil and gas, metals, mining, food and beverage, and life sciences.

Architecture & Software

Our Architecture & Software operating segment recorded sales of \$2.7 billion (42 percent of our total sales) in 2012. The Architecture & Software segment contains all of the hardware, software and communication components of our integrated control and information architecture capable of controlling the customer's industrial processes and connecting with their manufacturing enterprise. Architecture & Software has a broad portfolio of products, including: Control platforms that perform multiple control disciplines and monitoring of applications, including discrete, batch and continuous process, drives control, motion control and machine safety control. Products include controllers, electronic operator interface devices, electronic input/output devices, communication and networking products and industrial computers. The information-enabled Logix controllers provide integrated multi-discipline control that is modular and scalable.

Software products that include configuration and visualization software used to operate and supervise control platforms, advanced process control software and manufacturing execution software (MES) that enables customers to improve manufacturing productivity and meet regulatory requirements.

Other products, including rotary and linear motion control products, sensors and machine safety components.

Control Products & Solutions

Our Control Products & Solutions operating segment recorded 2012 sales of \$3.6 billion (58 percent of our total sales). The Control Products & Solutions segment combines a comprehensive portfolio of intelligent motor control and industrial control products, application expertise and project management capabilities. This comprehensive portfolio includes:

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

Value-added solutions ranging from packaged solutions such as configured drives and motor control centers to automation and information solutions where we provide design, integration and start-up services for custom-engineered hardware and software systems primarily for manufacturing applications.

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

Geographic Information

In 2012, sales to customers in the United States accounted for 49 percent of our total sales. Outside the United States, we sell in every region. The largest sales outside of the United States on a country-of-destination basis are in Canada, China, the United Kingdom, Italy, Germany, and Brazil. 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 17 in the Financial Statements.

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Table of Contents**Competition**

Depending on the product or service involved, our competitors range from large diversified corporations that also have business interests outside of industrial automation to smaller companies that specialize in niche industrial automation products and services. Factors that influence our competitive position include the breadth of our product portfolio and scope of solutions, technology leadership, knowledge of customer applications, installed base, distribution network, quality of products and services, global presence and price. Our major competitors of both segments include Siemens AG, ABB Ltd, Honeywell International Inc., Schneider Electric SA and Emerson Electric Co.

Distribution

In the United States, Canada and certain other countries, we sell primarily through the independent distributors in conjunction with our direct sales force. In the remaining countries, we sell through a combination of our direct sales force and to a lesser extent, through independent distributors. Approximately 70 percent of our global sales are through independent distributors. Sales to our largest distributor in 2012, 2011 and 2010 were approximately 10 percent of our total sales. The independent distributors typically do not carry products that compete with Allen-Bradley® products.

Research and Development

Our research and development spending for the years ended September 30, 2012, 2011 and 2010 was \$259.1 million, \$254.4 million, and \$198.9 million, respectively. Customer-sponsored research and development was not significant in 2012, 2011 or 2010.

Employees

At September 30, 2012, we had approximately 22,000 employees. Approximately 8,500 were employed in the United States.

Raw Materials and Supplies

We purchase a wide range of equipment, components, finished products and materials used in our business. The raw materials essential to the manufacture of our products 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):

| | | |
|------------------------------|-----------|-----------|
| | 2012 | 2011 |
| Architecture & Software | \$167.3 | \$160.3 |
| Control Products & Solutions | 962.6 | 1,016.8 |
| | \$1,129.9 | \$1,177.1 |

Backlog is not necessarily indicative of results of operations for future periods due to the short-cycle nature of most of our sales activities. Backlog orders scheduled for shipment beyond 2013 were approximately \$70.8 million as of September 30, 2012.

Environmental Protection Requirements

Information about the effect of compliance with environmental protection requirements and resolution of environmental claims is contained in Note 16 in the Financial Statements and in 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 or requests 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.

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The Company's name and its registered trademark "Rockwell Automation®" and other trademarks such as "Allen-Bradley®", "A-B®" and "PlantPAx Process Automation System™" are important to both of our business segments. In addition, we own other important trademarks that we use, such as "ICS TripleX™" for our control products and systems for industrial automation, and "Rockwell Software®" and "FactoryTalk®" for our software offerings.

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

Available Information

We maintain a website 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 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 on our website. The information contained on and linked from our website is not incorporated by reference into this Annual Report on Form 10-K

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Item 1A. Risk Factors

In the ordinary course of our business, we face various strategic, operating, compliance and financial risks. These risks could have an impact on our business, financial condition, operating results and cash flows. Our most significant risks are set forth below and elsewhere in this Annual Report on Form 10-K.

Our Enterprise Risk Management (ERM) process seeks to identify and address significant risks. Our ERM process uses the integrated risk framework of the Committee of Sponsoring Organizations (COSO) to assess, manage, and monitor risks. We believe that risk-taking is an inherent aspect of the pursuit of our growth and performance strategy. Our goal is to manage risks prudently rather than avoiding risks. We can mitigate risks and their impact on the Company only to a limited extent.

A team of senior executives prioritizes identified risks and assigns an executive to address each major identified risk area and lead action plans to manage risks. Our Board of Directors provides oversight of the ERM process and reviews significant identified risks. The Audit Committee also reviews significant financial risk exposures and the steps management has taken to monitor and manage them. Our other Board committees also play a role in risk management, as set forth in their respective charters.

Our goal is to proactively manage risks in a structured approach in conjunction with strategic planning, with the intent to preserve and enhance shareowner value. However, the risks set forth below and elsewhere in this Annual Report on Form 10-K and other risks and uncertainties could cause our results to vary materially from recent results or from our anticipated future results and could adversely affect our business and financial condition.

Adverse changes in business or industry conditions and volatility and disruption of the capital and credit markets may result in decreases in our revenues and profitability.

We are subject to macroeconomic cycles and when recessions occur, we may experience reduced orders, payment delays, supply chain disruptions or other factors as a result of the economic challenges faced by our customers, prospective customers and suppliers.

Demand for our products is sensitive to changes in levels of industrial production and the financial performance of major industries that we serve. As economic activity slows, credit markets tighten, or sovereign debt concerns linger, companies tend to reduce their levels of capital spending, which could result in decreased demand for our products. Our ability to access the credit markets, and the related costs of these borrowings, is affected by the strength of our credit rating and current market conditions. If our access to credit, including the commercial paper market, is adversely affected by a change in market conditions or otherwise, our cost of borrowings may increase or our ability to fund operations may be reduced.

We generate a substantial portion of our revenues from international sales and are subject to the risks of doing business in many countries.

Approximately 51 percent of our revenues in 2012 were made outside of the U.S. Future growth rates and success of our business depend in large part on growth in our international sales. Numerous risks and uncertainties affect our international operations. These risks and uncertainties include increased financial, legal and operating risks, such as political and economic instability, compliance with existing and future laws, regulations and policies, including those related to tariffs, investments, taxation, trade controls, employment regulations, repatriation of earnings and enforcement of contract and intellectual property rights. In addition, we are affected by changes in foreign currency exchange rates, inflation rates and interest rates.

New legislative and regulatory actions could adversely affect our business.

Legislative and regulatory action may be taken in the various countries and other jurisdictions where we operate that may affect our business activities in these countries or may otherwise increase our costs to do business. For example, we are increasingly required to comply with various environmental and other material, product, certification, labeling and customer requirements. These requirements could increase our costs and could potentially have an adverse effect on our ability to ship our products into certain jurisdictions.

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An inability to respond to 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. Failures or security breaches of our products or information technology systems could have an adverse effect on our business.

We rely heavily on information technology (IT) both in our products, solutions and services for customers and in our enterprise IT infrastructure in order to achieve our business objectives. Government agencies and security experts have warned about growing risks of hackers, cyber-criminals and other attacks targeting every type of IT system including industrial control systems such as those we sell and service and corporate enterprise IT systems.

Our portfolio of hardware and software products, solutions and services and our enterprise IT systems may be vulnerable to damage or intrusion from a variety of attacks including computer viruses, worms or other malicious software programs. These attacks have sometimes been successful.

Despite the precautions we take, an intrusion or infection of software, hardware or a system that we sold or serviced could result in the disruption of our customers' business, loss of proprietary or confidential information, or injuries to people or property. Similarly, an attack on our enterprise IT system could result in theft or disclosure of trade secrets or other intellectual property or a breach of confidential customer or employee information. Any such events could have an adverse impact on revenue, harm our reputation, cause us to incur legal liability and cause us to incur increased costs to address such events and related security concerns.

We are implementing a global Enterprise Resource Planning (ERP) system that is resulting in redesigned processes, organization structures and a common information system. Significant roll-outs of the system occurred at our U.S. locations and certain non-U.S. locations in 2007 to 2012, and are scheduled to continue at additional locations in 2013 and beyond. As we continue to implement new systems, they may not perform as expected. This could have an adverse effect on our business.

There are inherent risks in our solutions businesses.

Risks inherent in the sale of solutions include assuming greater responsibility for project completion and success, defining and controlling contract scope, efficiently executing projects, and managing the quality of our subcontractors and suppliers. If we are unable to manage and mitigate these risks, our results of operations could be adversely affected.

Our industry is highly competitive.

We face strong competition in all of our market segments in several significant respects. We compete based on breadth and scope of our product portfolio and solution and service offerings, technology differentiation, product performance, quality of our products and services, knowledge of integrated systems and applications that address our customers' business challenges, pricing, delivery and customer service. The relative importance of these factors differs across the markets and product areas that we serve. 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 to provide high quality products and services, we may experience price erosion, 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.

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, political instability and the actions taken by governments could cause damage to or disrupt our business operations, our suppliers or our customers, and could create economic instability. Although it is not possible to predict such events or their consequences, these events could decrease demand for our products or make it difficult or impossible for us to deliver products.

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Intellectual property infringement claims of others and the inability to protect our intellectual property rights could harm our business and our customers.

Others may assert intellectual property infringement claims against us or our customers. We frequently 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 be costly. In addition, we own the rights to many patents, trademarks, brand names and trade names that are important to our business. The inability to enforce our intellectual property rights may have an adverse effect on our results of operations. Expenses related to enforcing our intellectual property rights could be significant.

We must successfully defend any claims from taxing authorities 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 ambiguity of tax laws among those jurisdictions as well as the subjectivity of factual interpretations, our estimates of income tax liabilities may differ from actual payments or assessments. Claims by taxing authorities related to these differences could have an adverse impact on our operating results and financial position.

Our business success depends on attracting and retaining qualified personnel while appropriately managing costs related to employee benefits.

Our success depends in part on the efforts and abilities of our management team and key employees. Their skills, experience and industry knowledge significantly benefit our operations and performance. One important aspect of attracting and retaining qualified personnel is continuing to offer competitive employee retirement and health care benefits.

The amount of expenses we record for our defined benefit pension plans depends on factors such as changes in market interest rates and the value of plan assets. Significant decreases in market interest rates or the value of plan assets would increase our expenses. Expenses related to employer-funded health care benefits continue to increase as well. Increasing employee benefit costs or the failure to attract and retain members of our management team and key employees could have a negative effect on our operating results and financial condition.

Potential liabilities and costs from litigation (including asbestos claims and environmental remediation) could reduce our profitability.

Various lawsuits, claims and proceedings have been or may be asserted against us relating to the conduct of our business, including those pertaining to the safety and security of the products, services and solutions we sell, employment, contract matters and environmental remediation.

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. Our products may also be used in hazardous industrial activities, which could result in product liability claims. 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.

Our operations 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 to clean up 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 have, from time to time, divested certain of our businesses. In connection with these divestitures, certain lawsuits, claims and proceedings may be instituted or asserted against us related to the period that we owned the businesses, either because we agreed to retain certain liabilities related to these periods or because such liabilities fall upon us by

operation of law. In some instances, the divested business has assumed the liabilities; however, it is possible that we might be responsible to satisfy those liabilities if the divested business is unable to do so.

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A disruption to our distribution channel could reduce our revenues.

In the United States and Canada, approximately 90 percent of our sales are through distributors. In certain other countries, the majority of our sales are also through a limited number of distributors. While we maintain the right to appoint new distributors, any unplanned disruption to our existing distribution channel could adversely affect our revenues. A disruption could result from the sale of a distributor to a competitor, financial instability of a distributor, or other events.

We rely on vendors to supply equipment and components, which creates certain risks and uncertainties that may adversely affect our business.

Our business requires that we buy equipment and components, including finished products, which may include computer chips and commodities such as copper, aluminum and steel. Our reliance on suppliers of these items involves certain risks, including:

poor quality can adversely affect the reliability and reputation of our products;