ACUITY BRANDS INC
Form 10-Q
June 30, 2010

Table of Contents

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended May 31, 2010**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission file number 001-16583**

**ACUITY BRANDS, INC.**
**(Exact name of registrant as specified in its charter)**

| **Delaware** | **58-2632672** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification Number)** |
| **1170 Peachtree Street, N.E., Suite 2400, Atlanta, Georgia** | **30309** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(404) 853-1400**
**(Registrant s telephone number, including area code)**
**None**
**(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)**

Indicate by check mark x whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock $0.01 Par Value 43,545,797 shares as of June 29, 2010.

---

**ACUITY BRANDS, INC.**
**INDEX**


| | | Page No. |
|---|---|---|
| PART I. FINANCIAL INFORMATION | | |
| ITEM 1. | CONSOLIDATED FINANCIAL STATEMENTS | 3 |
| | CONSOLIDATED BALANCE SHEETS MAY 31, 2010 (Unaudited) AND AUGUST 31, 2009 | 3 |
| | CONSOLIDATED STATEMENTS OF INCOME (Unaudited) THREE AND NINE MONTHS ENDED MAY 28, 2010 AND 2009 | 4 |
| | CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) NINE MONTHS ENDED MAY 31, 2010 AND 2009 | 5 |
| | NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) | 6 |
| ITEM 2. | MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 28 |
| ITEM 3. | QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 38 |
| ITEM 4. | CONTROLS AND PROCEDURES | 39 |
| PART II. OTHER INFORMATION | | |
| ITEM 1. | LEGAL PROCEEDINGS | 40 |
| ITEM 1a. | RISK FACTORS | 40 |
| ITEM 2. | UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS | 40 |
| ITEM 6. | EXHIBITS | 40 |
| SIGNATURES | | 41 |

EX-12
EX-31.A
EX-31.B
EX-32.A
EX-32.B

**Table of Contents**

## PART I. FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

## ACUITY BRANDS, INC.
## CONSOLIDATED BALANCE SHEETS
*(In millions, except share and per-share data)*

| | May 31, 2010 (unaudited) | August 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 194.5 | $ 18.7 |
| Accounts receivable, less reserve for doubtful accounts of $1.9 at May 31, 2010 and August 31, 2009 | 236.0 | 227.4 |
| Inventories | 143.3 | 140.8 |
| Deferred income taxes | 17.3 | 16.7 |
| Prepayments and other current assets | 17.2 | 19.3 |
| Total Current Assets | 608.3 | 422.9 |
| Property, Plant, and Equipment, at cost: | | |
| Land | 7.7 | 7.3 |
| Buildings and leasehold improvements | 113.6 | 111.8 |
| Machinery and equipment | 344.6 | 334.7 |
| Total Property, Plant, and Equipment | 465.9 | 453.8 |
| Less Accumulated depreciation and amortization | 324.8 | 308.0 |
| Property, Plant, and Equipment, net | 141.1 | 145.8 |
| Other Assets: | | |
| Goodwill | 508.9 | 510.6 |
| Intangible assets | 181.1 | 184.8 |
| Deferred income taxes | 2.7 | 2.6 |
| Other long-term assets | 26.6 | 23.9 |
| Total Other Assets | 719.3 | 721.9 |
| Total Assets | $ 1,468.7 | $ 1,290.6 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable | $ 164.2 | $ 162.3 |
| Current maturities of long-term debt | | 209.5 |
| Accrued compensation | 41.0 | 35.3 |
| Accrued pension liabilities, current | 1.2 | 1.2 |
| Other accrued liabilities | 73.9 | 67.8 |
| Total Current Liabilities | 280.3 | 476.1 |

| | | |
|---|---|---|
| Long-Term Debt | 353.3 | 22.0 |
| Accrued Pension Liabilities, less current portion | 53.0 | 51.1 |
| Deferred Income Taxes | 11.4 | 13.0 |
| Self-Insurance Reserves, less current portion | 8.5 | 8.8 |
| Other Long-Term Liabilities | 45.3 | 47.4 |
| Commitments and Contingencies (see Note 10) | | |
| Stockholders Equity: | | |
| Preferred stock, $0.01 par value; 50,000,000 shares authorized; none issued | | |
| Common stock, $0.01 par value; 500,000,000 shares authorized; 50,302,333 issued and 42,954,566 outstanding at May 31, 2010; and 49,851,316 issued and 42,433,143 Outstanding at August 31, 2009 | 0.5 | 0.5 |
| Paid-in capital | 657.8 | 647.2 |
| Retained earnings | 438.5 | 404.2 |
| Accumulated other comprehensive loss items | (60.4) | (57.4) |
| Treasury stock, at cost, 7,347,767 shares at May 31, 2010 and 7,418,173 shares at August 31, 2009 | (319.5) | (322.3) |
| Total Stockholders Equity | 716.9 | 672.2 |
| Total Liabilities and Stockholders Equity | $ 1,468.7 | $ 1,290.6 |

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

**Table of Contents**

**ACUITY BRANDS, INC.**
**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**
*(In millions, except per-share data)*

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Net Sales | $ 407.6 | $ 396.6 | $ 1,182.7 | $ 1,234.8 |
| Cost of Products Sold | 244.0 | 243.0 | 705.6 | 765.1 |
| Gross Profit | 163.6 | 153.6 | 477.1 | 469.7 |
| Selling, Distribution, and Administrative Expenses | 124.7 | 112.1 | 362.2 | 339.3 |
| Special Charge | (0.3) | | 5.2 | 26.6 |
| Operating Profit | 39.2 | 41.5 | 109.7 | 103.8 |
| Other Expense (Income): | | | | |
| Interest expense, net | 7.3 | 6.4 | 22.1 | 21.9 |
| Loss on early debt extinguishment | | | 10.5 | |
| Miscellaneous expense (income), net | (1.0) | 2.0 | (1.1) | (2.2) |
| Total Other Expense | 6.3 | 8.4 | 31.5 | 19.7 |
| Income from Continuing Operations before Provision for Income Taxes | 32.9 | 33.1 | 78.2 | 84.1 |
| Provision for Income Taxes | 11.6 | 10.8 | 26.4 | 28.0 |
| Income from Continuing Operations | 21.3 | 22.3 | 51.8 | 56.1 |
| Income (Loss) from Discontinued Operations | | (0.3) | 0.6 | (0.3) |
| Net Income | $ 21.3 | $ 22.0 | $ 52.4 | $ 55.8 |
| Earnings Per Share: | | | | |
| Basic Earnings per Share from Continuing Operations | $ 0.49 | $ 0.53 | $ 1.20 | $ 1.36 |
| Basic Earnings (Loss) per Share from Discontinued Operations | | (0.01) | 0.01 | (0.01) |
| Basic Earnings per Share | $ 0.49 | $ 0.52 | $ 1.21 | $ 1.35 |
| Basic Weighted Average Number of Shares Outstanding | 42.7 | 40.9 | 42.5 | 40.4 |
| Diluted Earnings per Share from Continuing Operations | $ 0.48 | $ 0.52 | $ 1.17 | $ 1.34 |
| Diluted Earnings (Loss) per Share from Discontinued Operations | | (0.01) | 0.01 | (0.01) |
| Diluted Earnings per Share | $ 0.48 | $ 0.51 | $ 1.18 | $ 1.33 |
| Diluted Weighted Average Number of Shares Outstanding | 43.5 | 41.7 | 43.3 | 41.1 |

| | | | | |
|---|---|---|---|---|
| Dividends Declared per Share | $ 0.13 | $ 0.13 | $ 0.39 | $ 0.39 |

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

Table of Contents

## ACUITY BRANDS, INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
*(In millions)*

| | Nine Months Ended May 31, | |
|---|---|---|
| | 2010 | 2009 |
| Cash Provided by (Used for) Operating Activities: | | |
| Net income | $ 52.4 | $ 55.8 |
| Add: (Gain) Loss from Discontinued Operations | (0.6) | 0.3 |
| Income from Continuing Operations | 51.8 | 56.1 |
| Adjustments to reconcile net income to net cash provided by (used for) Operating activities: | | |
| Depreciation and amortization | 27.7 | 26.1 |
| Excess tax benefits from share-based payments | (1.5) | (0.6) |
| Loss on early debt extinguishment | 10.5 | |
| Loss on the sale or disposal of property, plant, and equipment | 0.1 | |
| Asset impairments | 3.4 | 1.6 |
| Deferred income taxes | (2.0) | (4.5) |
| Other non-cash items | 6.6 | 6.9 |
| Change in assets and liabilities, net of effect of acquisitions, divestitures and effect of exchange rate changes: | | |
| Accounts receivable | (10.2) | 48.9 |
| Inventories | (3.1) | (7.6) |
| Prepayments and other current assets | (2.7) | 5.9 |
| Accounts payable | 2.9 | (49.5) |
| Other current liabilities | 13.4 | (61.0) |
| Other | 0.1 | 5.1 |
| Net Cash Provided by Operating Activities | 97.0 | 27.4 |
| Cash Provided by (Used for) Investing Activities: | | |
| Purchases of property, plant, and equipment | (15.9) | (15.1) |
| Proceeds from sale of property, plant, and equipment | 0.2 | 0.1 |
| Acquisitions | | (162.4) |
| Net Cash Used for Investing Activities | (15.7) | (177.4) |
| Cash Provided by (Used for) Financing Activities: | | |
| Revolving credit facility borrowings, net | | 60.8 |
| Repayments of long-term debt | (237.9) | (160.0) |
| Issuance of long-term debt | 346.5 | |
| Proceeds from stock option exercises and other | 4.9 | 2.8 |
| Excess tax benefits from share-based payments | 1.5 | 0.6 |
| Dividends paid | (17.0) | (16.0) |
| Net Cash Provided by (Used for) Financing Activities | 98.0 | (111.8) |

| | | |
|---|---|---|
| Cash from Discontinued Operations: | | |
| Net Cash (Used for) Provided by Operating Activities | | (0.3) |
| Net Cash Used for Discontinued Operations | | (0.3) |
| Effect of Exchange Rate Changes on Cash | (3.5) | (6.7) |
| Net Change in Cash and Cash Equivalents | 175.8 | (268.8) |
| Cash and Cash Equivalents at Beginning of Period | 18.7 | 297.1 |
| Cash and Cash Equivalents at End of Period | $ 194.5 | $ 28.3 |
| Supplemental Cash Flow Information: | | |
| Income taxes paid during the period | $ 25.0 | $ 32.0 |
| Interest paid during the period | $ 17.9 | $ 26.7 |

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

**1. Description of Business and Basis of Presentation**

Acuity Brands, Inc. ( Acuity Brands ) is the parent company of Acuity Brands Lighting, Inc. ( ABL ), formerly known as Acuity Lighting Group, Inc., and other subsidiaries (collectively referred to herein as the Company ). The Company designs, produces, and distributes a broad array of indoor and outdoor lighting fixtures and related products, including lighting controls, and services for commercial and institutional, industrial, infrastructure, and residential applications for various markets throughout North America and select international markets. The Company has one operating segment.

On April 20, 2009, the Company acquired 100% of the outstanding capital stock of Sensor Switch, Inc. ( Sensor Switch ), an industry-leading developer and manufacturer of lighting controls and energy management systems. Sensor Switch, based in Wallingford, Connecticut, offers a wide-breadth of products and solutions that substantially reduce energy consumption, including occupancy sensors, photocontrols, and distributed lighting control devices. The operating results of Sensor Switch have been included in the Company s consolidated financial statements since the date of acquisition.

On December 31, 2008, the Company acquired for cash and stock substantially all the assets and assumed certain liabilities of Lighting Controls & Design ( LC&D ). Located in Glendale, California, LC&D is a manufacturer of comprehensive digital lighting controls and software that offers a breadth of products, ranging from dimming and building interfaces to digital thermostats, all within a single, scalable system. The operating results of LC&D have been included in the Company s consolidated financial statements since the date of acquisition.

Acuity Brands completed the spin-off of its specialty products business (the Spin-off ), Zep Inc. ( Zep ) on October 31, 2007, by distributing all of the shares of Zep common stock, par value $0.01 per share, to the Company s stockholders of record as of October 17, 2007. The Company s stockholders received one Zep share, together with an associated preferred stock purchase right, for every two shares of the Company s common stock they owned. Stockholders received cash in lieu of fractional shares for amounts less than one full Zep share.

As a result of the Spin-off, the Company s financial statements have been prepared with the results of operations and cash flows of the specialty products business presented as discontinued operations. All historical statements have been restated to conform to this presentation. Refer to Note 2 *Discontinued Operations*.

The *Consolidated Financial Statements* have been prepared by the Company in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) and present the financial position, results of operations, and cash flows of Acuity Brands and its wholly-owned subsidiaries. References made to years are for fiscal year periods.

The unaudited interim consolidated financial statements included herein have been prepared by the Company in accordance with U.S. GAAP and present the financial position, results of operations, and cash flows of the Company. These interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary to present fairly the Company s consolidated financial position as of May 31, 2010, the consolidated results of operations for the three and nine months ended May 31, 2010 and 2009, and the consolidated cash flows for the nine months ended May 31, 2010 and 2009. Certain information and footnote disclosures normally included in the Company s annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. However, the Company believes that the disclosures included herein are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of and for the three years ended August 31, 2009 and notes thereto included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC ) on October 30, 2009 (File No. 001-16583) ( Form 10-K ) and the Company s Current Report on Form 8-K filed with the SEC on June 30, 2010 (File No. 001-16583) ( Form 8-K ).

The results of operations for the three and nine months ended May 31, 2010 and 2009 are not necessarily indicative of the results to be expected for the full fiscal year because the net sales and net income of the Company historically have been higher in the second half of its fiscal year and because of the continued uncertainty of general economic conditions impacting the key end markets of the Company for the remainder of fiscal year 2010.

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

**2. Discontinued Operations**

As described in the *Description of Business and Basis of Presentation* footnote, the Company completed the Spin-off on October 31, 2007. A summary of the operating results for the discontinued operations is as follows:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | May 31, 2010 | May 31, 2009 | May 31, 2010 | May 31, 2009 |
| Income before Provision for Income | $ | $ | $ 0.6 | $ |
| Provision for Income Taxes | | 0.3 | | 0.3 |
| | $ | $ (0.3) | $ 0.6 | $ (0.3) |

In conjunction with the Spin-off, Acuity Brands and Zep entered into various agreements that address the allocation of assets and liabilities between them and that define their relationship after the separation, including a distribution agreement, a tax disaffiliation agreement, an employee benefits agreement, and a transition services agreement. The income from discontinued operations relates to the revision of estimates during the second quarter of fiscal 2010 of certain legal reserves established at the time of the Spin-off. As it was with the original reserve, the income from discontinued operations had no income tax effect. Information regarding guarantees and indemnities related to the Spin-off are included in the *Commitments and Contingencies* footnote.

**3. Significant Accounting Policies**

***Use of Estimates***

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

***Reclassifications***

Certain prior-period amounts have been reclassified to conform to current year presentation.

***Subsequent Events***

The Company has evaluated for recognition and disclosure subsequent events for occurrences and transactions after the date of the condensed financial statements at May 31, 2010 and for the three and nine months ended May 31, 2010.

***Significant Accounting Policies***

For a description of other significant accounting policies, see the *Summary of Significant Accounting Policies* footnote to the Financial Statements included in the Company s Form 10-K. There have been no material changes to the Company s significant accounting policies since the filing of the Company s 2009 Annual Report on Form 10-K, except as noted in the *New Accounting Pronouncements* footnote.

**4. New Accounting Pronouncements**

***Accounting Standards Adopted in Fiscal 2010***

In June 2009, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* ( SFAS 168 ), which confirms that as of July 1, 2009, the *FASB Accounting Standards Codification™* ( Codification ) is the single official source of authoritative, nongovernmental U.S. GAAP. All existing accounting standard documents are superseded, and all other accounting literature not included in the Codification is considered nonauthoritative. SFAS 168 which now resides in the Accounting Standards Codification ( ASC ) Topic 105, *Generally Accepted Accounting Principles* ( ASC 105 ), within the Codification was effective for interim and annual

periods ending after September 15, 2009 and, therefore, was adopted by the Company on November 30, 2009. The Company determined, however, that the standard did not have an effect on the Company s financial position, results of operations, or cash flows upon adoption.

In June 2009, the FASB issued Accounting Standards Update ( ASU ) No. 2009-1, *Topic 105 Generally Accepted Accounting Principles amendments based on Statement of Financial Accounting Standards No. 168* The *FASB Accounting Standards*

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

*Codification™ and the Hierarchy of Generally Accepted Accounting Principles* ( ASU 2009-1 ), which amends the Codification for the issuance of SFAS 168. See discussion on SFAS 168 above as adoption was concurrent with that standard.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements* ( ASU 2010-06 ). The updates to the Codification require new disclosures around transfers into and out of Levels 1 and 2 in the fair value hierarchy and separate disclosures about purchases, sales, issuances, and settlements related to Level 3 measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009 with early adoption permitted, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of Level 3 activity. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years with early adoption permitted. The Company adopted the provisions of ASU 2010-06 effective March 1, 2010. The Company determined that the update had no impact on its financial position, results of operations, or cash flows upon adoption.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements* ( ASU 2010-09 ). The amendments in this standard update define a SEC filer within the Codification and eliminate the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated in order to remove potential conflicts with current SEC guidance. The relevant provisions of ASU 2010-09 were effective upon the date of issuance of February 24, 2010, and the Company adopted the amendments accordingly. As the update only pertained to disclosures, ASU 2010-09 had no impact on the Company s financial position, results of operations, or cash flows upon adoption.

In June 2008, FASB issued guidance within ASC Topic 260, *Earnings Per Share* ( ASC 260 ), to clarify that unvested share-based payment awards with a right to receive nonforfeitable dividends are participating securities. The standard provides guidance on how to allocate earnings to participating securities and compute earnings per share ( EPS ) using the two-class method. The provisions of this standard were effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and were therefore adopted by the Company on September 1, 2009. The effect of the implementation of this guidance impacted the Company s basic and diluted EPS calculations retroactively for the three and nine month periods ended May 31, 2009 as follows: 1) basic EPS is $0.52 compared with $0.54 reported previously for the third quarter of fiscal 2009, and diluted EPS is $0.51 compared with $0.53 reported previously for the third quarter of fiscal 2009; while 2) basic EPS is $1.35 compared with $1.38 reported previously for the first nine months of fiscal 2009, and diluted EPS is $1.33 compared with $1.35 reported previously for the first nine months of fiscal 2009. The EPS amounts for previously reported periods have been adjusted due to retrospective adoption of this standard.

In December 2007, the FASB issued guidance within ASC Topic 805, *Business Combinations* ( ASC 805 ), which changes the accounting for business combinations through a requirement to recognize 100% of the fair values of assets acquired, liabilities assumed, and noncontrolling interests in acquisitions of less than a 100% controlling interest when the acquisition constitutes a change in control of the acquired entity. Other requirements include capitalization of acquired in-process research and development assets, expensing, as incurred, acquisition-related transaction costs and capitalizing restructuring charges as part of the acquisition only if requirements of ASC Topic 420, *Exit or Disposal Obligations,* are met. The standard was effective for business combination transactions for which the acquisition date was on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and was therefore adopted by the Company on September 1, 2009. The implementation of this guidance had no

Table of Contents

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

effect on the Company s financial position, results of operations, or cash flows as no applicable business combinations subsequent to the effective date occurred.

In December 2007, the FASB issued guidance within ASC Topic 810, *Consolidation* ( ASC 810 ), that establishes the economic entity concept of consolidated financial statements, stating that holders of a residual economic interest in an entity have an equity interest in the entity, even if the residual interest is related to only a portion of the entity. Therefore, this standard requires a noncontrolling interest to be presented as a separate component of equity. The standard also states that once control is obtained, a change in control that does not result in a loss of control should be accounted for as an equity transaction. The statement requires that a change resulting in a loss of control and deconsolidation is a significant event triggering gain or loss recognition and the establishment of a new fair value basis in any remaining ownership interests. The standard was effective for fiscal years beginning on or after December 15, 2008 and was therefore adopted by the Company on September 1, 2009. The implementation of this guidance had no effect on the Company s financial position, results of operations, or cash flows, as the Company does not currently consolidate an entity with a noncontrolling interest.

***Accounting Standards Yet to Be Adopted***

In September 2009, the FASB issued ASU No. 2009-14, *Software (Topic 985) Certain Revenue Arrangements That Include Software Elements* ( ASU 2009-14 ). ASU 2009-14 changes the accounting model for revenue arrangements that include both tangible products and software elements to allow for alternatives when vendor-specific objective evidence does not exist. Under this guidance, tangible products containing software components and non-software components that function together to deliver the tangible product s essential functionality and hardware components of a tangible product containing software components are excluded from the software revenue guidance in Subtopic 985-605, *Software-Revenue Recognition*; thus, these arrangements are excluded from this update. ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 with early adoption permitted. ASU 2009-14 is therefore effective for the Company no later than the beginning of fiscal 2011. The Company is currently in the process of determining the impact, if any, of adoption of the provisions of ASU 2009-14.

In September 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements* ( ASU 2009-13 ). ASU 2009-13 addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services ( deliverables ) separately rather than as a combined unit. Specifically, this guidance amends the criteria in Subtopic 605-25, *Revenue Recognition-Multiple-Element Arrangements,* of the Codification for separating consideration in multiple-deliverable arrangements. A selling price hierarchy is established for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. Additional disclosures related to a vendor s multiple-deliverable revenue arrangements are also required by this update. ASU 2009-13 is effective prospectively for revenue arrangements entered into, or materially modified, in fiscal years beginning on or after June 15, 2010 with early adoption permitted. ASU 2009-13 is therefore effective for the Company no later than the beginning of fiscal 2011. The Company is currently in the process of determining the impact, if any, of adoption of the provisions of ASU 2009-13.

**5. Goodwill and Intangible Assets**

Through multiple acquisitions, the Company acquired intangible assets consisting primarily of trademarks associated with specific products with finite lives, definite-lived distribution networks, patented technology, non-compete agreements, and customer relationships, which are amortized over their estimated useful lives. Indefinite lived intangible assets consist of trade names that are expected to generate cash flows indefinitely.

The Company recorded amortization expense of $1.7 and $1.5 related to intangible assets with finite lives during the three months ended May 31, 2010 and 2009, respectively. The Company recorded amortization expense of

$5.3 and $3.9 related to intangible assets with finite lives during the nine months ended May 31, 2010 and 2009, respectively. The rise in amortization expense for the first nine months of 2010 as compared with the prior-year period was primarily attributable to the amortizable intangible assets obtained in the December 31, 2008 acquisition of substantially all the assets and the assumption of certain liabilities of LC&D and the April 20, 2009 acquisition of Sensor Switch. Amortization expense is expected to be approximately $7.0 in fiscal 2010, $6.7 in fiscal 2011, $5.8 in fiscal 2012, $5.0 in fiscal 2013, and $4.9 in fiscal 2014. The decrease in expected amortization expense in fiscal 2012 is due to the completion of the amortization during fiscal 2011 of certain acquired patented technology assets. The decrease in fiscal 2013 is due to the completion of the amortization during fiscal 2012 of certain acquired customer relationships.

Table of Contents

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

**6. Inventories**

Inventories include materials, direct labor, and related manufacturing overhead. Inventories are stated at the lower of cost (on a first-in, first-out or average cost basis) or market and consist of the following:

| | May 31, 2010 | August 31, 2009 |
|---|---|---|
| Raw materials and supplies | $ 67.5 | $ 69.8 |
| Work in process | 9.9 | 11.9 |
| Finished goods | 75.5 | 70.3 |
| | 152.9 | 152.0 |
| Less: Reserves | (9.6) | (11.2) |
| Total Inventory | $ 143.3 | $ 140.8 |

**7. Earnings per share**

Basic earnings per share is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding, which has been modified to include the effects of all participating securities (unvested share-based payment awards with a right to receive nonforfeitable dividends) as prescribed by the two-class method under ASC 260, during the period. Diluted earnings per share is computed similarly but reflects the potential dilution that would occur if dilutive options were exercised and other distributions related to deferred stock agreements were incurred. Stock options of 288,034 shares (whole units) were excluded from the diluted earnings per share calculation for the nine months ended May 31, 2010, as the effect of inclusion would have been antidilutive. Further discussion of the Company s stock options and restricted stock awards are included within Notes 6 and 7 of the *Notes to Consolidated Financial Statements* within the Company s Form 10-K.

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

The following table calculates basic and diluted earnings per common share for the three and nine months ended May 31, 2010 and 2009:

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Basic Earnings per Share from Continuing Operations: | | | | |
| Income from continuing operations | $ 21.3 | $ 22.3 | $ 51.8 | $ 56.1 |
| Basic weighted average shares outstanding | 42.7 | 40.9 | 42.5 | 40.4 |
| Basic earnings per share | $ 0.49 | $ 0.53 | $ 1.20 | $ 1.36 |
| Diluted Earnings per Share from Continuing Operations: | | | | |
| Income from continuing operations | $ 21.3 | $ 22.3 | $ 51.8 | $ 56.1 |
| Basic weighted average shares outstanding | 42.7 | 40.9 | 42.5 | 40.4 |
| Common stock equivalents | 0.8 | 0.8 | 0.8 | 0.7 |
| Diluted weighted average shares outstanding | 43.5 | 41.7 | 43.3 | 41.1 |
| Diluted earnings per share | $ 0.48 | $ 0.52 | $ 1.17 | $ 1.34 |
| Basic Earnings per Share from Discontinued Operations: | | | | |
| Income (loss) from discontinued operations | $ | $ (0.3) | $ 0.6 | $ (0.3) |
| Basic weighted average shares outstanding | 42.7 | 40.9 | 42.5 | 40.4 |
| Basic earnings (loss) per share | $ | $ (0.01) | $ 0.01 | $ (0.01) |
| Diluted Earnings per Share from Discontinued Operations: | | | | |
| Income (loss) from discontinued operations | $ | $ (0.3) | $ 0.6 | $ (0.3) |
| Basic weighted average shares outstanding | 42.7 | 40.9 | 42.5 | 40.4 |
| Common stock equivalents | 0.8 | 0.8 | 0.8 | 0.7 |
| Diluted weighted average shares outstanding | 43.5 | 41.7 | 43.3 | 41.1 |
| Diluted earnings (loss) per share | $ | $ (0.01) | $ 0.01 | $ (0.01) |

In accordance with ASC 260, of which updated provisions became effective September 1, 2009, the computation of common stock outstanding has been modified to include unvested share-based payment awards with rights to receive nonforfeitable dividends as participating securities. The application of the standard decreased both

basic and diluted EPS by $0.02 for the three months ended May 31, 2009 and $0.03 and $0.02 for the nine months ended May 31, 2009, respectively, as compared to the previously reported amounts.

Table of Contents

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

**8. Comprehensive Income**

U.S. GAAP guidance pertaining to comprehensive income requires the reporting of a measure of all changes in equity that result from recognized transactions and other economic events other than transactions with owners in their capacity as owners. Other comprehensive income includes foreign currency translation adjustments. The calculation of comprehensive income is as follows:

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Net income | $ 21.3 | $ 22.0 | $ 52.4 | $ 55.8 |
| Foreign currency translation adjustments | (3.8) | 13.3 | (3.0) | (17.9) |
| Comprehensive income | $ 17.5 | $ 35.3 | $ 49.4 | $ 37.9 |

**9. Debt**

***Lines of Credit***

On October 19, 2007, the Company executed a $250.0 revolving credit facility (the Revolving Credit Facility ). The Revolving Credit Facility matures in October 2012 and contains financial covenants, including a minimum interest coverage ratio and a leverage ratio ( Maximum Leverage Ratio ) of total indebtedness to EBITDA (earnings before interest, taxes, depreciation and amortization expense), as such terms are defined in the Revolving Credit Facility agreement. These ratios are computed at the end of each fiscal quarter for the most recent 12-month period. The Revolving Credit Facility allows for a Maximum Leverage Ratio of 3.50, subject to certain conditions defined in the financing agreement. The Company was compliant with all financial covenants under the Revolving Credit Facility as of May 31, 2010. At May 31, 2010, the Company had additional borrowing capacity under the Revolving Credit Facility of $242.7 under the most restrictive covenant in effect at the time, which represents the full amount of the Revolving Credit Facility less outstanding letters of credit of $7.3 discussed below.

The Revolving Credit Facility bears interest at the option of the borrower based upon either (1) the higher of the JPMorgan Chase Bank prime rate and the federal funds effective rate plus 0.50%, or (2) the London Inter Bank Offered Rate ( LIBOR ) plus the Applicable Margin (a margin as determined by Acuity Brands leverage ratio). Based upon Acuity Brands leverage ratio, as defined in the Revolving Credit Facility agreement, the Applicable Margins were 0.50% and 0.32% as of May 31, 2010 and 2009, respectively. During the periods ended May 31, 2010 and 2009, the Company paid commitment fees at a rate of approximately 0.1%.

At May 31, 2010, the Company had outstanding letters of credit totaling $11.5, primarily for securing collateral requirements under the casualty insurance programs for Acuity Brands and for providing credit support for the Company s industrial revenue bond. At May 31, 2010, a total of $7.3 of the letters of credit was issued under the Revolving Credit Facility, thereby reducing the total availability under the facility by such amount.

***Notes***

On December 1, 2009, the Company simultaneously announced the private offering by ABL, Acuity Brands wholly-owned principal operating subsidiary, of $350.0 aggregate principal amount of senior unsecured notes due in fiscal 2020 (the Notes ) and the cash tender offer for the $200.0 of publicly traded notes outstanding that were scheduled to mature in August 2010 (the 2010 Notes ). In addition to the retirement of the 2010 Notes, the Company used the proceeds to repay the $25.3 outstanding balance on a three-year unsecured promissory note issued to the former sole shareholder of Sensor Switch as part of ABL s acquisition of Sensor Switch during fiscal 2009, as discussed below, with the remainder used for general corporate purposes.

The Notes are fully and unconditionally guaranteed on a senior unsecured basis by Acuity Brands and ABL IP Holding LLC ( ABL IP Holding , and, together with Acuity Brands, the Guarantors ), a wholly-owned subsidiary of

Acuity Brands. The Notes are senior unsecured obligations of ABL and rank equally in right of payment with all of ABL s existing and future senior unsecured indebtedness. The guarantees of Acuity Brands and ABL IP Holding are senior unsecured obligations of Acuity Brands and ABL IP Holding and rank equally in right of payment with their other senior unsecured indebtedness. The Notes bear interest at a rate of 6% per annum and were issued at a price equal to 99.797% of their face value and for a term of 10 years. Interest on the Notes is payable semi-annually on June 15 and December 15, commencing on June 15, 2010. Additionally, the Company capitalized $2.9 of deferred issuance costs related to the Notes that are being amortized over the 10-year term of the Notes.

In December 2009, the Company commenced a cash tender offer to purchase the 2010 Notes at a priced premium of $1,050.91 per $1,000.00 (whole dollars). The aggregate principal amount of $175.7, representing approximately 87.9% of the outstanding 2010

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

Notes, was validly tendered. The total consideration plus the applicable accrued and unpaid interest was paid to the tendering holders on the settlement date of December 10, 2009. The loss on the transaction, including the premium paid, expenses, and the write-off of the remaining deferred issuance costs associated with the notes, was approximately $9.6. On February 23, 2010, the Company redeemed the remaining $24.3 of the 2010 Notes outstanding for consideration of $25.1 plus accrued interest. The loss, including the premium paid and expenses, on the transaction was approximately $0.9.

On April 20, 2009, ABL issued a three-year unsecured promissory note at a 6% interest rate in the amount of $30.0 to the former sole shareholder of Sensor Switch, who continued as an employee of the Company upon completion of the acquisition, as partial consideration for the acquisition of Sensor Switch during the third quarter of fiscal 2009. In accordance with certain rights to accelerate the repayment of the promissory note, ABL paid the outstanding principal balance of $25.3 in January 2010. No penalty or loss was incurred by the Company due to the prepayment of the promissory note.

In accordance with the registration rights agreement by and between ABL and the Guarantors and the initial purchasers of the Notes, ABL and the Guarantors to the Notes expect to file a registration statement with the SEC for an offer to exchange the Notes for SEC-registered notes with substantially identical terms. If the exchange offer is not completed on or before December 8, 2010, the registration rights agreement provides that the annual interest rate borne by the Notes will increase by 0.50% per annum until the exchange offer is completed or a shelf registration statement is declared effective.

The Company has outstanding $4.0 in a tax-exempt industrial revenue bond that is scheduled to mature in 2021.

Further discussion of the Company s debt is included within Note 5 of the *Notes to Consolidated Financial Statements* within the Company s Form 10-K.

***Interest Expense***

Interest expense, net, is comprised primarily of interest expense on long-term debt, obligations in connection with non-qualified retirement plans, and Revolving Credit Facility borrowings, partially offset by interest income on cash and cash equivalents.

The following table summarizes the components of interest expense, net:

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Interest expense | $ 7.4 | $ 6.5 | $ 22.4 | $ 22.9 |
| Interest income | (0.1) | (0.1) | (0.3) | (1.0) |
| Interest expense, net | $ 7.3 | $ 6.4 | $ 22.1 | $ 21.9 |

**10. Commitments and Contingencies**

***Self-Insurance***

It is the policy of the Company to self-insure up to certain limits traditional risks, including workers compensation, comprehensive general liability, and auto liability. The Company s self-insured retention for each claim involving workers compensation, comprehensive general liability (including product liability claims), and auto liability is limited to $0.5 per occurrence of such claims. A provision for claims under this self-insured program, based on the Company s estimate of the aggregate liability for claims incurred, is revised and recorded annually. The estimate is derived from both internal and external sources, including but not limited to the Company s independent actuary. The Company is also self-insured up to certain limits for certain other insurable risks, primarily physical loss to property ($0.5 per occurrence) and business interruptions resulting from such loss lasting three days or more in duration. Insurance coverage is maintained for catastrophic property and casualty exposures, as well as those risks

required to be insured by law or contract. The Company is fully self-insured for certain other types of liabilities, including environmental, product recall, and patent infringement. The actuarial estimates are subject to uncertainty from various sources, including, among others, changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. Although the Company believes that the actuarial estimates are reasonable, significant differences related to the items noted above could materially affect the Company s self-insurance obligations, future expense, and cash flow. The Company is also self-insured for the majority of its medical benefit plans. The Company estimates its aggregate liability for claims incurred by applying a lag factor to the Company s historical claims and administrative cost experience. The appropriateness of the Company s lag factor is evaluated and revised annually, as necessary.

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

***Litigation***

The Company is subject to various legal claims arising in the normal course of business, including patent infringement and product recall claims. Based on information currently available, it is the opinion of management that the ultimate resolution of pending and threatened legal proceedings will not have a material adverse effect on the financial condition, results of operations, or cash flows of the Company. However, in the event of unexpected future developments, it is possible that the ultimate resolution of any such matters, if unfavorable, could have a material adverse effect on the financial condition, results of operations, or cash flows of the Company in future periods. The Company establishes reserves for legal claims when associated costs become probable and can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher than the amounts reserved for such claims. However, the Company cannot make a meaningful estimate of actual costs to be incurred that could possibly be higher or lower than the amounts reserved.

***Environmental Matters***

The operations of the Company are subject to numerous comprehensive laws and regulations relating to the generation, storage, handling, transportation, and disposal of hazardous substances, as well as solid and hazardous wastes, and to the remediation of contaminated sites. In addition, permits and environmental controls are required for certain of the Company s operations to limit air and water pollution, and these permits are subject to modification, renewal, and revocation by issuing authorities. On an ongoing basis, the Company invests capital and incurs operating costs relating to environmental compliance. Environmental laws and regulations have generally become stricter in recent years. The cost of responding to future changes may be substantial. The Company establishes reserves for known environmental claims when the associated costs become probable and can be reasonably estimated. The actual cost of environmental issues may be substantially higher or lower than that reserved due to difficulty in estimating such costs.

***Guarantees and Indemnities***

The Company is a party to contracts entered into in the normal course of business in which it is common for the Company to agree to indemnify third parties for certain liabilities that may arise out of or relate to the subject matter of the contract. In most cases, the Company cannot estimate the potential amount of future payments under these indemnities until events arise that would result in a liability under the indemnities.

In conjunction with the separation of their businesses (the Distribution ), Acuity Brands and Zep entered into various agreements that addressed the allocation of assets and liabilities and defined the Company s relationship with Zep after the Distribution, including a distribution agreement and a tax disaffiliation agreement. The distribution agreement provides that Acuity Brands will indemnify Zep for liabilities related to the businesses that comprise Acuity Brands. The tax disaffiliation agreement provides that Acuity Brands will indemnify Zep for certain taxes and liabilities that may arise related to the Distribution and, generally, for deficiencies, if any, with respect to federal, state, local, or foreign taxes of Zep for periods before the Distribution. Liabilities determined under the tax disaffiliation agreement terminate upon the expiration of the applicable statutes of limitation for such liabilities. There is no stated maximum potential liability included in the tax disaffiliation agreement or the distribution agreement. The Company does not believe that any amounts it is likely to be required to pay under these indemnities will be material to the Company s results of operations, financial position, or liquidity. The Company cannot estimate the potential amount of future payments under these indemnities because claims that would result in a liability under the indemnities are not fully known.

***Product Warranty and Recall Costs***

The Company records an allowance for the estimated amount of future warranty claims when the related revenue is recognized, primarily based on historical experience of identified warranty claims. However, there can be no assurance that future warranty costs will not exceed historical experience. If actual future warranty costs exceed historical amounts, additional allowances may be required, which could have a material adverse impact on the Company s results of operations and cash flows in future periods.

14

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

The changes in product warranty and recall reserves (included in *Other accrued liabilities* on the *Consolidated Balance Sheets)* during the nine months ended May 31, 2010 are summarized as follows:

| | |
|---|---|
| Balance at September 1, 2009 | $ 3.4 |
| Adjustments to the warranty and recall reserve | 3.5 |
| Payments made during the period | (3.5) |
| Balance at May 31, 2010 | $ 3.4 |

**11. Share-Based Payments**

The Company accounts for share-based payments through the measurement and recognition of compensation expense for share-based payment awards made to employees and directors of the Company, including stock options and restricted shares (all part of the Long-Term Incentive Plan), and share units representing certain deferrals into the Director Deferred Compensation Plan or the Supplemental Deferred Savings Plan. Each of these award programs are more fully discussed within the Company s Form 10-K. The Company recorded $3.4 and $3.5 of share-based expense for the three months ended May 31, 2010 and 2009, respectively, and $9.1 and $10.4 for the nine months ended May 31, 2010 and 2009, respectively, excluding the acceleration of certain share-based expense as a result of employee terminations recorded as part of the special charges (See *Special Charges* footnote). The total income tax benefit recognized in the income statement for share-based compensation arrangements was $1.2 for the three months ended May 31, 2010, and no income tax benefit was recognized for the three months ended May 31, 2009. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $1.5 and $0.6 for the nine months ended May 31, 2010 and 2009, respectively.

**12. Pension Plans**

The Company has several pension plans, both qualified and non-qualified, covering certain hourly and salaried employees. Benefits paid under these plans are based generally on employees years of service and/or compensation during the final years of employment. The Company makes annual contributions to the plans to the extent indicated by actuarial valuations and statutory requirements. The Company expects to contribute approximately $3.1 and $1.1 to its domestic and international defined benefit plans, respectively, during fiscal 2010. Plan assets are invested primarily in equity and fixed income securities.

Net periodic pension cost for the Company s defined benefit pension plans during the three and nine months ended May 31, 2010 and 2009 included the following components:

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Service cost | $ 0.8 | $ 0.6 | $ 2.3 | $ 1.9 |
| Interest cost | 2.1 | 2.2 | 6.3 | 6.5 |
| Expected return on plan assets | (1.8) | (2.3) | (5.5) | (7.0) |
| Amortization of prior service cost | | | 0.1 | |
| Recognized actuarial loss | 0.8 | 0.4 | 2.6 | 1.3 |
| Net periodic pension cost | $ 1.9 | $ 0.9 | $ 5.8 | $ 2.7 |

**13. Special Charges**

During fiscal 2008, the Company commenced actions to streamline and simplify the Company s organizational structure and operations as a result of the Spin-off of Zep. The charges consisted of severance and related employee

benefit costs associated with the elimination of certain positions worldwide, consolidation of certain manufacturing facilities, the estimated costs associated with the early termination of certain leases, and share-based expense due to the modification of the terms of agreements to accelerate vesting for certain terminated employees. These actions, including those taken in fiscal 2009 as part of this program, are expected to allow the Company to better leverage efficiencies in its supply chain and support areas, while funding continued investments in other areas that support future growth opportunities.

Table of Contents

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

In February 2010, the Company announced plans to continue its ongoing programs to streamline operations, including the consolidation of certain manufacturing facilities and the reduction of certain overhead costs. These actions are expected to allow the Company to better leverage efficiencies in its supply chain and support areas, while funding continued investments in other areas that support future growth opportunities. During the second quarter of fiscal 2010, the Company recorded a pre-tax charge of $5.4, or $0.08 after-tax per diluted share. The total pre-tax charge consists primarily of $1.7 for estimated severances and employee benefits related to the planned consolidation of certain manufacturing operations and a reduction in workforce and $3.7 for asset impairments related to the closing of a manufacturing facility. Approximately $46.7 of cumulative special charges related to these activities has been incurred through May 31, 2010.

The changes in the reserves related to the program during the nine months ended May 31, 2010 are included in Accrued Compensation on the Consolidated Balance Sheets and are summarized as follows:

| | Severance | Exit Costs |
|---|---|---|
| Balance as of September 1, 2009 | $ 11.0 | $ 0.9 |
| Special charge | 1.4 | 0.3 |
| Payments made during the period | (5.7) | (0.3) |
| Balance as of May 31, 2010 | $ 6.7 | $ 0.9 |

**14. Fair Value Measurements**

The Company determines a fair value measurement based on the assumptions a market participant would use in pricing an asset or liability. This guidance established a three level hierarchy making a distinction between market participant assumptions based on (i) unadjusted quoted prices for identical assets or liabilities in an active market (Level 1), (ii) quoted prices in markets that are not active or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability (Level 2), and (iii) prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement (Level 3).

Table of Contents

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

The following table presents information about assets and liabilities required to be carried at fair value on a recurring basis as of May 31, 2010 and August 31, 2009:

| | Fair Value Measurements as of May 31, 2010: | |
|---|---|---|
| | Level 1 | Total Fair Value |
| **Assets:** | | |
| Cash and cash equivalents | $ 194.5 | $ 194.5 |
| Long-term investments (1) | 3.1 | 3.1 |
| **Liabilities:** | | |
| Deferred compensation plan (2) | $ 3.1 | $ 3.1 |

| | Fair Value Measurements as of August 31, 2009: | |
|---|---|---|
| | Level 1 | Total Fair Value |
| **Assets:** | | |
| Cash and cash equivalents | $ 18.7 | $ 18.7 |
| Long-term investments (1) | 4.7 | 4.7 |
| **Liabilities:** | | |
| Deferred compensation plan (2) | $ 4.7 | $ 4.7 |

(1) The Company maintains certain investments that generate returns that offset changes in certain liabilities related to deferred compensation arrangements.

(2) The Company maintains a self-directed, non-qualified deferred compensation plan structured as a rabbi trust

primarily for
certain retired
executives and
other highly
compensated
employees.

The Company utilizes valuation methodologies to determine the fair values of its financial assets and liabilities in conformity with the concepts of exit price and the fair value hierarchy as prescribed in ASC 820, *Fair Value Measurements and Disclosures*. All valuation methods and assumptions are validated at least quarterly to ensure the accuracy and relevance of the fair values. There were no material changes to the valuation methods or assumptions used to determine fair values during the current period.

The Company used the following valuation methods and assumptions in estimating the fair value of the following assets and liabilities:

Cash and cash equivalents are classified as Level 1 assets. The carrying amounts for cash reflect the assets fair values, and the fair values for cash equivalents are determined based on quoted market prices.

Long-term investments are classified as Level 1 assets. These investments consist primarily of publicly traded marketable equity securities and fixed income securities, and the fair values are obtained through market observable pricing.

Deferred compensation plan liabilities are classified as Level 1 within the hierarchy. The fair values of the liabilities are directly related to the valuation of the long-term investments held in trust for the plan. Hence, the carrying value of the deferred compensation liability represents the fair value of the investment assets.

The Company does not possess any assets or liabilities that are carried at fair value on a recurring basis classified as Level 3 assets or liabilities. In addition, no transfers between the levels of the fair value hierarchy occurred during the current fiscal period. In the event of a transfer in or out of Level 1, the transfers would be recognized on the date of occurrence.

Disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value are required each reporting period in addition to any financial instruments carried at fair value on a recurring basis as prescribed by ASC 825, *Financial Instruments*. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

Table of Contents

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

The carrying values and estimated fair values of certain of the Company s financial instruments were as follows at May 31, 2010 and August 31, 2009.

| | May 31, 2010 | | August 31, 2009 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Assets:** | | | | |
| Investments in nonconsolidating affiliates | $ 9.1 | $ 9.1 | $ 9.1 | $ 9.1 |
| **Liabilities:** | | | | |
| Senior unsecured public notes | $ 349.3 | $ 358.3 | $ | $ |
| Public notes at 8.375% interest | | | 200.0 | 207.8 |
| Promissory note | | | 27.5 | 28.0 |
| Industrial revenue bond | 4.0 | 4.0 | 4.0 | 4.0 |

Investments in nonconsolidating affiliates represents a strategic investment of less than a 20% ownership interest in a privately-held affiliate, and the Company does not maintain power over or control of the entity. The Company accounts for this investment using the cost method. Therefore, the historical cost of the acquired shares represents the carrying value of the investment. The investee is currently reviewing certain strategic alternatives, including a possible sale. The Company is participating in these discussions, and, based on the outcome of the investee s review, which the Company believes may be completed during the fiscal fourth quarter of the current year, the fair value of the Company s investment could differ from its carrying value. If the investee decides to sell itself, the Company could incur a gain or loss on its investment based on the ultimate sale price. The Company is not able to estimate at this time the outcome of the investee s review or the amount of any adjustment to the carrying value or any gain or loss which may result.

Notes are carried at the outstanding balance, including bond discounts, as of the end of the reporting period. Fair value is estimated based on the discounted future cash flows using rates currently available for debt of similar terms and maturity.

The tax-exempt industrial revenue bond is carried at the outstanding balance as of the end of the reporting period, and the Company estimates that the carrying value approximates fair value as of May 31, 2010.

The guidance excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realized in immediate settlement of the instruments. In evaluating the Company s management of liquidity and other risks, the fair values of all assets and liabilities should be taken into consideration, not only those presented above.

***Nonrecurring Fair Value Measurements***

As part of the streamlining actions taken during the second quarter of fiscal 2010, the Company recorded $3.7 in asset impairments related to the closure of a manufacturing facility and the abandonment of plant equipment. The Company s restructuring plans triggered impairment indicators, which required the testing of the recoverability of the building and equipment per ASC Topic 360, *Property, Plant, and Equipment* ( ASC 360 ). The fair value of the assets were estimated based primarily on undiscounted cash flows due to the short useful lives of the assets (e.g., less than one year) and the Company s intentions for future use.

As of February 28, 2010, the manufacturing facility possessed a total carrying value of $3.4 prior to the announced plan to close. Through cash flow analysis and local commercial real estate market analysis, including the existence of a market for the facility, or lack thereof, the Company determined that the fair value of the property approximated zero. Thus, an impairment charge for the entire carrying value of the facility was incurred. Due to the

methodology and inputs (i.e., undiscounted future cash flows, broker quotes, and probability analysis) employed to determine the fair value of the property, the manufacturing facility was concluded to be Level 3 assets within the hierarchy.

The plant equipment had a carrying value of $0.3 as of February 28, 2010. Based on the lack of future use of the equipment and intended disposal, the assets were determined to be impaired during the second quarter of fiscal 2010 for the full net book value. Since management s intent and use for the asset changed and no observable market data or inputs were utilized to determine the fair value of the equipment, the equipment was determined to be a Level 3 asset within the hierarchy.

Table of Contents

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*

**15. Supplemental Guarantor Condensed Consolidating Financial Statements**

In December 2009, ABL, Acuity Brands wholly-owned principal operating subsidiary of the Company, engaged in the refinancing of the current debt outstanding through a private placement bond offering of $350.0 aggregate principal amount of senior unsecured notes due in fiscal 2020, which was completed during the second quarter of fiscal 2010 and in accordance with Rule 144A and Regulations of the Securities Act of 1933, as amended. The net proceeds from the issuance of the Notes were used primarily to repurchase the $200.0 of publicly traded notes outstanding, of which Acuity Brands and ABL were co-obligors. The Company also used the proceeds to repay the three-year unsecured promissory note at 6% interest with an outstanding balance of $25.3 in January 2010 that was issued to the former sole shareholder of Sensor Switch as part of ABL s acquisition of Sensor Switch during fiscal 2009, with the remainder used for general corporate purposes. The Notes are fully and unconditionally guaranteed on a senior unsecured basis by Acuity Brands and ABL IP Holding. The Notes are senior unsecured obligations of ABL and rank equally in right of payment with all of ABL s existing and future senior unsecured indebtedness. The guarantees of Acuity Brands and ABL IP Holding are senior unsecured obligations of Acuity Brands and ABL IP Holding and rank equally in right of payment with their other senior unsecured indebtedness. The Notes bear interest at a rate of 6% per annum and were issued at a price equal to 99.797% of their face value and for a term of 10 years. Interest on the Notes is payable semi-annually on June 15 and December 15, commencing on June 15, 2010.

In accordance with the registration rights agreement by and between ABL and the Guarantors and the initial purchasers of the Notes, ABL and the Guarantors to the Notes expect to file a registration statement with the SEC for an offer to exchange the Notes for SEC-registered notes with substantially identical terms. If the exchange offer is not completed on or before December 8, 2010, registration rights agreement provides that the annual interest rate borne by the Notes will increase by 0.50% per annum until the exchange offer is completed or a shelf registration statement is declared effective.

Due to the filing of the registration statement and offer to exchange, the Company determined the need for compliance with Rule 3-10 of SEC Regulation S-X ( Rule 3-10 ). In lieu of providing separate audited financial statements for ABL and ABL IP Holding, the Company has included the accompanying Condensed Consolidating Financial Statements in accordance with Rule 3-10(d) of SEC Regulation S-X. The column marked Parent represents the results of Acuity Brands. The column marked Subsidiary Issuer represents the results of ABL. The column entitled Subsidiary Guarantor represents the results for ABL IP Holding. Lastly, the column listed as Non-Guarantors includes the results of the non-guarantor direct and indirect subsidiaries of Acuity Brands, which consist primarily of foreign subsidiaries. Eliminations were necessary in order to arrive at consolidated amounts. In addition, the equity method of accounting was used to calculate investments in subsidiaries. Accordingly, this basis of presentation is not intended to present our financial condition, results of operations, or cash flows for any purpose other than to comply with the specific requirements for parent-subsidiary guarantor reporting.

Table of Contents

**ACUITY BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
*(Amounts in millions, except per-share data and as indicated)*
**CONDENSED CONSOLIDATING BALANCE SHEETS**
*(in millions)*

| | At May 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | **Parent** | **Subsidiary Issuer** | **Subsidiary Guarantor** | **Non-Guarantors** | **Eliminations** | **Consolidated** |
| **ASSETS** | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | $ 168.9 | $ 1.3 | $ | $ 24.3 | $ | $ 194.5 |
| Accounts receivable, net | | 205.3 | | 30.7 | | 236.0 |
| Inventories | | 134.0 | | 9.3 | | 143.3 |
| Other current assets | 6.9 | 22.8 | | 4.8 | | 34.5 |
| Total Current Assets | 175.8 | 363.4 | | 69.1 | | 608.3 |
| Property, Plant, and Equipment, net | | 110.1 | | 31.0 | | 141.1 |
| Goodwill | | 471.9 | 2.7 | 34.3 | | 508.9 |
| Intangible assets | | 61.3 | 117.3 | 2.5 | | 181.1 |
| Other long-term assets | | 21.4 | | 7.9 | | 29.3 |
| Investments in subsidiaries | 643.4 | 330.2 | | 0.2 | (973.8) | |
| Total Assets | $ 819.2 | $ 1,358.3 | $ 120.0 | $ 145.0 | $ (973.8) | $ 1,468.7 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable | $ 0.3 | $ 151.9 | $ | $ 12.0 | $ | $ 164.2 |
| Intercompany payable (receivable) | 64.0 | 205.7 | (56.3) | (213.4) | | |
| Other accrued liabilities | 15.1 | 90.7 | | 10.3 | | 116.1 |
| Total Current Liabilities | 79.4 | 448.3 | (56.3) | (191.1) | | 280.3 |
| Long-Term Debt | | 353.3 | | | | 353.3 |
| Deferred Income Taxes | (30.4) | 43.9 | | (2.1) | | 11.4 |
| Other Long-Term Liabilities | 53.3 | 41.6 | | 11.9 | | 106.8 |
| Total Stockholders Equity | 716.9 | 471.2 | 176.3 | 326.3 | (973.8) | 716.9 |
| Total Liabilities and Stockholders Equity | $ 819.2 | $ 1,358.3 | $ 120.0 | $ 145.0 | $ (973.8) | $ 1,468.7 |

Note: Intercompany payable (receivable) within the non-guarantors column primarily represents intercompany transactions between ABL and its direct subsidiary, Acuity Unlimited, Inc ( Acuity Unlimited ). The equity interest in

Acuity Unlimited offsets this receivable. As no operating activity currently exists, Acuity Unlimited will issue a dividend and a return of capital in the amount of the capital investment made by ABL and settle the intercompany balance outstanding during fiscal 2010. The dividend and the return of capital will reduce intercompany receivable and total equity for the non-guarantors column by approximately $230.0 m