ACUITY BRANDS INC
Form 10-Q
April 03, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

R	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended February 28, 2013.
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 (State or other jurisdiction of incorporation or organization)	58-2632672 (I.R.S. Employer Identification Number)
1170 Peachtree Street, N.E., Suite 2300, Atlanta, Georgia (Address of principal executive offices)	30309-7676 (Zip Code)
(404) 853-1400 (Registrant’s telephone number, including area code)	

1170 Peachtree Street, N.E., Suite 2400, Atlanta, Georgia 30309
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 þ No o

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

Large Accelerated Filer þ	Accelerated Filer o	Non-accelerated Filer o (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 Act). Yes o No þ

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 — 42,836,096 shares as of March 28, 2013.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statement
ACUITY BRANDS, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except share and per-share data)

	February 28, 2013 (unaudited)	August 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$262.8	$284.5
Accounts receivable, less reserve for doubtful accounts of $1.5 at February 28, 2013 and $1.4 at August 31, 2012	282.3	263.8
Inventories	193.7	194.1
Deferred income taxes	12.7	13.0
Prepayments and other current assets	32.2	23.6
Total Current Assets	783.7	779.0
Property, Plant, and Equipment, at cost:		
Land	7.3	7.3
Buildings and leasehold improvements	108.9	115.5
Machinery and equipment	356.1	345.7
Total Property, Plant, and Equipment	472.3	468.5
Less — Accumulated depreciation and amortization	327.4	329.3
Property, Plant, and Equipment, net	144.9	139.2
Other Assets:		
Goodwill	554.7	554.9
Intangible assets	228.0	230.8
Deferred income taxes	3.9	4.1
Other long-term assets	27.2	28.9
Total Other Assets	813.8	818.7
Total Assets	$1,742.4	$1,736.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$213.7	$232.7
Accrued compensation	18.0	44.9
Accrued pension liabilities, current	1.2	1.2
Other accrued liabilities	79.6	86.0
Total Current Liabilities	312.5	364.8
Long-Term Debt	353.5	353.5
Accrued Pension Liabilities, less current portion	91.6	90.1
Deferred Income Taxes	32.1	33.4
Self-Insurance Reserves, less current portion	7.0	6.6
Other Long-Term Liabilities	55.0	54.5
Commitments and Contingencies (see Commitments and Contingencies footnote)		
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; 52,000,089 issued and 42,280,834 outstanding at February 28, 2013; 51,508,358 issued and 41,789,103 outstanding at August 31, 2012	0.5	0.5

Paid-in capital	720.4	703.1
Retained earnings	675.0	635.3
Accumulated other comprehensive loss items	(85.0)	(84.7)
Treasury stock, at cost, 9,719,255 shares at February 28, 2013 and August 31, 2012	(420.2)	(420.2)
Total Stockholders’ Equity	890.7	834.0
Total Liabilities and Stockholders’ Equity	$1,742.4	$1,736.9

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

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

	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Net Sales	$486.7	$457.7	$967.8	$932.0
Cost of Products Sold	297.0	275.8	588.6	556.4
Gross Profit	189.7	181.9	379.2	375.6
Selling, Distribution, and Administrative Expenses	144.3	136.3	284.9	276.8
Special Charge	0.3	6.6	1.0	9.3
Operating Profit	45.1	39.0	93.3	89.5
Other Expense (Income):				
Interest Expense, net	7.8	7.7	15.5	15.4
Miscellaneous (Income) Expense, net	0.1	1.1	0.2	(1.8)
Total Other Expense	7.9	8.8	15.7	13.6
Income before Provision for Income Taxes	37.2	30.2	77.6	75.9
Provision for Income Taxes	12.5	10.7	26.8	26.4
Net Income	$24.7	$19.5	$50.8	$49.5
Earnings Per Share:				
Basic Earnings per Share	$0.58	$0.46	$1.19	$1.17
Basic Weighted Average Number of Shares Outstanding	42.1	41.4	41.9	41.3
Diluted Earnings per Share	$0.57	$0.46	$1.18	$1.16
Diluted Weighted Average Number of Shares Outstanding	42.5	41.9	42.4	41.8
Dividends Declared per Share	$0.13	$0.13	$0.26	$0.26

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ACUITY BRANDS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In millions)

	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Net Income	$24.7	$19.5	$50.8	$49.5
Other Comprehensive Income/(Expense) Items:				
Foreign Currency Translation Adjustments	(0.6)	3.9	0.7	(5.2)
Defined Benefit Pension Plans:				
Prior service cost from plan amendment during period	—	—	(5.5)	—
Amortization of defined benefit pension items:				
Prior service cost	0.1	—	0.3	—
Actuarial losses	1.6	1.0	3.2	2.0
Total Defined Benefit Pension Plans, net	1.7	1.0	(2.0)	2.0
Other Comprehensive Income/(Expense) Items before Provision for Income Taxes	1.1	4.9	(1.3)	(3.2)
Income Tax (Expense)/Benefit related to Other Comprehensive Income/(Expense) Items	(0.6)	(0.4)	1.0	(0.7)
Other Comprehensive Income/(Expense) items after Provision for Income Taxes	0.5	4.5	(0.3)	(3.9)
Comprehensive Income/(Expense)	$25.2	$24.0	$50.5	$45.6

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

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

	Six Months Ended	
	February 28, 2013	February 29, 2012
Cash Provided by/(Used for) Operating Activities:		
Net income	$50.8	$49.5
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	19.9	19.5
Share-based compensation expense	8.6	8.1
Excess tax benefits from share-based payments	(5.8)	(4.1)
Loss on the sale or disposal of property, plant, and equipment	—	0.1
Asset impairments	—	0.1
Deferred income taxes	1.7	0.5
Change in assets and liabilities, net of effect of acquisitions, divestitures and effect of exchange rate changes:		
Accounts receivable	(19.1)	4.1
Inventories	1.2	6.6
Prepayments and other current assets	(5.8)	(8.2)
Accounts payable	(19.2)	(13.9)
Other current liabilities	(27.5)	(20.5)
Other	(5.1)	(4.2)
Net Cash Provided by/(Used for) Operating Activities	(0.3)	37.6
Cash Provided by/(Used for) Investing Activities:		
Purchases of property, plant, and equipment	(21.9)	(9.4)
Proceeds from sale of property, plant, and equipment	0.1	—
Acquisitions of business and intangible assets, net of cash acquired	(3.3)	(3.8)
Net Cash Provided by/(Used for) Investing Activities	(25.1)	(13.2)
Cash Provided by/(Used for) Financing Activities:		
Repurchases of common stock	—	(9.2)
Proceeds from stock option exercises and other	9.1	6.4
Excess tax benefits from share-based payments	5.8	4.1
Dividends paid	(11.1)	(11.0)
Net Cash Provided by/(Used for) Financing Activities	3.8	(9.7)
Effect of Exchange Rate Changes on Cash	(0.1)	(4.3)
Net Change in Cash and Cash Equivalents	(21.7)	10.4
Cash and Cash Equivalents at Beginning of Period	284.5	170.2
Cash and Cash Equivalents at End of Period	$262.8	$180.6
Supplemental Cash Flow Information:		
Income taxes paid during the period	$24.9	$32.0
Interest paid during the period	$20.4	$20.9

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”), and other subsidiaries (collectively referred to herein as “the Company”). The Company designs, produces, and distributes a broad array of lighting solutions and services for commercial, institutional, industrial, infrastructure, and residential applications for various markets throughout North America and select international markets. The Company’s lighting solutions include devices such as luminaires, lighting controls, power supplies, prismatic skylights, light-emitting diode (“LED”) lamps, and integrated lighting systems for indoor and outdoor applications utilizing a combination of light sources, including daylight, and other devices controlled by software that monitors and manages light levels while optimizing energy consumption (collectively referred to herein as “lighting solutions”). The Company has one operating segment serving the North American lighting market and select international markets.

Since fiscal 2010, the Company has made several acquisitions to expand and enhance its portfolio of lighting solutions, including the following:

On December 20, 2012, the Company acquired for cash all of the ownership interests in Adura Technologies ("Adura"), a leading developer of radio frequency (RF) mesh networking technology that allows individual light fixtures to communicate in a wireless mesh network with switches, sensors and system management software. The operating results for Adura have been included in the Company’s consolidated financial statements since the date of acquisition.

On May 12, 2011, the Company acquired for cash all of the ownership interests in Healthcare Lighting, Inc. (“Healthcare Lighting”), a leading provider of specialized, high-performance lighting solutions for healthcare facilities based in Fairview, Pennsylvania. The operating results for Healthcare Lighting have been included in the Company’s consolidated financial statements since the date of acquisition.

On February 23, 2011, the Company acquired for cash all of the ownership interests in Washoe Equipment, Inc., d/b/a Sunoptics Prismatic Skylights, and CBC Plastics LLC (collectively, “Sunoptics”), a premier designer, manufacturer, and marketer of high-performance, prismatic daylighting solutions based in Sacramento, California. The operating results for Sunoptics have been included in the Company’s consolidated financial statements since the date of acquisition.

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 February 28, 2013, the consolidated results of operations for the three and six months ended February 28, 2013 and February 29, 2012, the consolidated statements of comprehensive income for the three and six months ended February 28, 2013 and February 29, 2012, and the consolidated cash flows for the six months ended February 28, 2013 and February 29, 2012. 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, 2012 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 26, 2012 (File No. 001-16583) (“Form 10-K”).

The results of operations for the three and six months ended February 28, 2013 and February 29, 2012 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 that may impact the key end markets of the Company for the remainder of fiscal 2013.

2. 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 the current year presentation. No material reclassifications have occurred during the current period.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure for occurrences and transactions after the date of the consolidated financial statements at February 28, 2013. On March 13, 2013, the Company acquired all of the ownership interests in eldoLAB Holding B.V. ("eldoLED"), a leading provider of high-performance drivers for LED lighting systems based in Eindhoven, Netherlands. The acquisition of eldoLED did not represent a material transaction as compared with the Company’s financial condition, results of operations, or cash flows.

3. New Accounting Pronouncements

Accounting Standards Adopted in Fiscal 2013

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income that amended ASU No. 2011-12 and ASU No. 2011-05. ASU 2013-02 is effective for reporting periods beginning after December 15, 2012. The Company early adopted ASU 2013-02 in the second quarter of fiscal 2013. The provisions of ASU 2013-02 did not have a material effect on the Company's results of operations, financial condition, and cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income (“ASU 2011-05”). ASU 2011-05 changes the presentation of comprehensive income in the financial statements for all periods reported and eliminates the option under the previous guidance that allowed for presentation of other comprehensive income as part of the Statement of Stockholders' Equity. The update allows two options for the proper presentation of comprehensive income: 1) a single Statement of Comprehensive Income, which includes all components of net income and other comprehensive income; or 2) a Statement of Income followed immediately by a Statement of Comprehensive Income, which includes summarized net income and all components of other comprehensive income. Additionally, the update requires the presentation of reclassification adjustments out of accumulated other comprehensive income on the face of the Statement of Income and the Statement of Comprehensive Income. The provisions of ASU 2011-05 are effective for public entities retrospectively for annual periods, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company adopted ASU 2011-05 in the first quarter of fiscal 2013. The provisions of ASU 2011-05 did not have a material effect on the Company’s results of operations, financial condition, and cash flows.

In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (“ASU 2011-12”). This update defers the provisions within ASU 2011-05 requiring the presentation on the face of the financial statements of the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. The deferral will allow the FASB further time to deliberate on operational concerns expressed by constituents. ASU 2011-12 is effective concurrently with the adoption of ASU 2011-05. The Company adopted ASU 2011-12 in the first quarter of fiscal 2013. The provisions of ASU 2011-12 did not have a material effect on the

Company’s results of operations, financial condition, and cash flows.

In October 2012, the FASB issued ASU No. 2012-04, Technical Corrections and Improvements ("ASU 2012-04"), which amends a wide variety of Topics in the FASB Accounting Standards Codification ("Codification" or "ASC"). The amendments in ASU No. 2012-04 represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. Additionally, the amendments are intended to make the Codification easier to understand and the fair value measurement guidance easier to apply by eliminating inconsistencies and providing needed clarifications. Amendments in ASU 2012-04 that do not provide transition guidance were effective upon issuance for public entities. Amendments that are subject to the transition guidance are effective for fiscal periods beginning after December 15, 2012. The Company adopted ASU 2012-04 in the first quarter of fiscal 2013. The provisions of ASU 2012-04 did not have a material effect on the Company's results of operations, financial condition, and cash flows.

Accounting Standards Yet to Be Adopted

In July 2012, the FASB issued ASU No. 2012-02, Intangibles - Goodwill and Other (Topic 350) - Testing Indefinite-Lived Intangible Assets for Impairment (“ASU 2012-02”), which allows companies to assess qualitative factors to determine if indefinite-lived intangible assets other than goodwill have been impaired. If the qualitative factors reviewed do not indicate that it is more likely than not that the fair value of an indefinite-lived intangible asset does not exceed the carrying value, ASU 2012-02 deems any further impairment testing to be unnecessary. In the event that the qualitative review indicates otherwise, the company is required to perform further quantitative impairment testing as prescribed by Topic 350. ASU 2012-02 is effective for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company is currently reviewing the provisions of ASU 2012-02 but does not expect it to have a material effect on the Company's results of operations, financial condition, and cash flows.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830): Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force) (“ASU 2013-05”), which applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. ASU No. 2013-05 is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The Company is currently reviewing the provisions of ASU No. 2013-05 but does not expect it to have a material effect on the Company's results of operations, financial condition, and cash flows.

4. Acquisitions

The Company has actively pursued opportunities for investment and growth through acquisitions. Since fiscal 2010, the Company has acquired a number of businesses that participate in the North American lighting market, as discussed below. As with previous acquisitions, the companies were purchased to further expand and complement the Company’s lighting solutions portfolio and were fully incorporated into the Company’s operations. None of the business combinations-individually or in the aggregate-represented a material transaction as compared with the Company’s financial condition, results of operations, or cash flows in any of the periods in which control was obtained.

Adura Technologies Acquisition

On December 20, 2012, the Company acquired for cash all of the ownership interests in Adura Technologies ("Adura"), a leading developer of radio frequency (RF) mesh networking technology that allows individual light fixtures to communicate in a wireless mesh network with switches, sensors and system management software. The operating results of Adura have been included in the Company's consolidated financial statements since the date of acquisition and are not material to the Company's financial condition, results of operations, or cash flows. Preliminary amounts related to the acquisition are reflected in the Consolidated Balance Sheets as of February 28, 2013. These amounts are deemed to be provisional until disclosed otherwise, as the Company continues to gather information related to the identification and valuation of intangible and other acquired assets and liabilities.

Healthcare Lighting Acquisition

On May 12, 2011, the Company acquired for cash all of the ownership interests in Healthcare Lighting, a leading provider of specialized, high-performance lighting solutions for healthcare facilities based in Fairview, Pennsylvania. Healthcare Lighting exclusively focused on servicing the healthcare industry through the design and manufacture of medical lighting products meant to enhance the visual environment in healthcare settings. The operating results of Healthcare Lighting have been included in the Company’s consolidated financial statements since the date of acquisition. Management finalized the acquisition accounting for Healthcare Lighting during fiscal 2012. There were no material changes to the Company’s financial statements as a result of the finalization of the acquisition accounting.

Sunoptics Acquisition

On February 23, 2011, the Company acquired for cash all of the ownership interests in Sunoptics, a premier provider of high-performance, prismatic daylighting solutions based in Sacramento, California. Sunoptics' high-performance prismatic skylights optimized lighting performance through the use of sustainable and energy-efficient solutions for retail, industrial, warehouse, educational, governmental, and office applications. The operating results of Sunoptics have been included in the Company’s consolidated financial statements since the date of acquisition. Management finalized the acquisition accounting for Sunoptics during fiscal 2012. There were no material changes to the Company’s financial statements as a result of the finalization of the acquisition accounting.

5. Assets Held For Sale

The Company classifies long-lived assets as held for sale upon the development of a plan for disposal and in accordance with applicable U.S. GAAP and ceases the depreciation and amortization of the assets at that date. During the first quarter of fiscal 2012, the Company ceased operations at one manufacturing facility. During the second quarter of fiscal 2013, the Company ceased operations at a second manufacturing facility. The Company is actively marketing four properties for sale. As of February 28, 2013, the carrying value of the property held for sale equaled $10.3, of which $7.5 is included in Prepayments and other current assets and $2.8 is included in Other long-term assets on the Consolidated Balance Sheets.

Further details regarding the Company’s assets held for sale are included within the Significant Accounting Policies footnote of the Notes to Consolidated Financial Statements within the Company’s Form 10-K.

6. 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. ASC Topic 820, Fair Value Measurements and Disclosures ("ASC 820"), establishes 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).

The following table presents information about assets and liabilities required to be carried at fair value and measured on a recurring basis as of February 28, 2013 and August 31, 2012:

	Fair Value Measurements as of:			
	February 28, 2013		August 31, 2012	
	Level 1	Total Fair Value	Level 1	Total Fair Value
Assets:				
Cash and cash equivalents	$262.8	$262.8	$284.5	$284.5
Short-term investments(1)	0.1	0.1	0.6	0.6
Long-term investments(1)	0.6	0.6	0.7	0.7
Liabilities:				
Deferred compensation plan obligations(1) (current portion)	$0.1	$0.1	$0.6	$0.6
Deferred compensation plan obligations(1) (long-term portion)	0.6	0.6	0.7	0.7

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

Short-term and 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 liabilities within the hierarchy. The fair values of the liabilities are directly related to the valuation of the short-term and 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.

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 a level within the fair value hierarchy, 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 Topic 825, Financial Instruments ("ASC 825"). 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.

The carrying values and estimated fair values of certain of the Company's financial instruments were as follows at February 28, 2013 and August 31, 2012:

	February 28, 2013		August 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Senior unsecured public notes, net of unamortized discount	$349.5	$402.2	$349.5	$407.5
Industrial revenue bond	4.0	4.0	4.0	4.0

The senior unsecured public 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 (Level 2).

The tax-exempt industrial revenue bond is carried at the outstanding balance as of the end of the reporting period. The industrial revenue bond is a variable-rate instrument that resets on a weekly basis, and, therefore, the Company estimates that the face amount of the bond approximates fair value as of February 28, 2013 based on bonds of similar terms and maturity (Level 2).

ASC 825 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 to 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.

7. Goodwill and Intangible Assets

Through multiple acquisitions, the Company acquired intangible assets consisting primarily of trademarks and trade names 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.

Current year increases in the gross carrying amounts for acquired intangible assets, including goodwill, of $2.2 were due primarily to acquisitions less the impact of foreign currency changes during the period. The provisional amounts for the acquired intangible assets, including goodwill, are deemed incomplete until disclosed otherwise as the Company continues to gather information related to the business combination (refer to footnote 4 Acquisitions herein).

The Company recorded amortization expense of $2.6 related to intangible assets with finite lives during each of the three months ended February 28, 2013 and February 29, 2012. The Company recorded amortization expense of $5.2 and $5.8 related to intangible assets with finite lives during the six months ended February 28, 2013 and February 29, 2012, respectively.

Amortization expense is generally recorded on a straight-line basis and is expected to be approximately $10.5 in fiscal 2013, $10.5 in fiscal 2014, $10.3 in fiscal 2015, $9.7 in fiscal 2016, and $9.4 in fiscal 2017.
Further discussion of the Company's goodwill and other intangible assets is included within the Significant Accounting Policies footnote of the Notes to Consolidated Financial Statements within the Company's Form 10-K.

8. Inventories

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

	February 28, 2013	August 31, 2012
Raw materials, supplies, and work in process[1]	$117.9	$120.2
Finished goods	86.5	84.6
	204.4	204.8
Less: Reserves	(10.7)	(10.7)
Total Inventory	$193.7	$194.1

(1) Due to the immaterial amount of estimated work in process and the short lead times for the conversion of raw materials to finished goods, the Company does not believe the segregation of raw materials, supplies, and work in process to be meaningful information.

9. 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 Topic 260, Earnings Per Share ("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 approximately 109,110 and 240,722 were excluded from the diluted earnings per share calculation for the three months ended February 28, 2013 and February 29, 2012, respectively, as the effect of inclusion would have been antidilutive. Stock options of approximately 77,764 and 256,344 for the six months ended February 28, 2013 and February 29, 2012, respectively, were excluded from the diluted earnings per share calculation as the effect of inclusion would have been antidilutive.
Further discussion of the Company's stock options and restricted stock awards is included within the Common Stock and Related Matters and Share-Based Payments footnotes of the Notes to Consolidated Financial Statements within the Company's Form 10-K.
The following table calculates basic earnings per common share and diluted earnings per common share for the three and six months ended February 28, 2013 and February 29, 2012:

	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Basic Earnings per Share:				
Net income	$24.7	$19.5	$50.8	$49.5
Less: Income attributable to participating securities	(0.4)	(0.4)	(0.8)	(1.0)
Net income available to common shareholders	$24.3	$19.1	$50.0	$48.5
Basic weighted average shares outstanding	42.1	41.4	41.9	41.3
Basic earnings per share	$0.58	$0.46	$1.19	$1.17
Diluted Earnings per Share:				
Net income	$24.7	$19.5	$50.8	$49.5
Less: Income attributable to participating securities	(0.4)	(0.4)	(0.8)	(1.0)
Net income available to common shareholders	$24.3	$19.1	$50.0	$48.5
Basic weighted average shares outstanding	42.1	41.4	41.9	41.3
Common stock equivalents	0.4	0.5	0.5	0.5
Diluted weighted average shares outstanding	42.5	41.9	42.4	41.8
Diluted earnings per share	$0.57	$0.46	$1.18	$1.16

10. Comprehensive Income

Comprehensive income represents 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 for the Company includes foreign currency translation and pension adjustments.

The following table presents the changes in each component of Accumulated Other Comprehensive Income/Loss Items, net of tax.

	Foreign Currency Items	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss Items
Beginning Balance, August 31, 2012	$(16.9)	$(67.8)	$ (84.7)
Other Comprehensive Income/(Expense) before reclassifications	0.7	(3.3)	(2.6)
Amounts reclassified from accumulated other comprehensive income	—	2.3	2.3
Net current-period Other Comprehensive Income/(Expense)	0.7	(1.0)	(0.3)
Ending Balance, February 28, 2013	$(16.2)	$(68.8)	$ (85.0)

The following table presents the tax (expense)/benefit allocated to each component of Other Comprehensive Income/Expense.

	Three Months Ended February 28, 2013			Six Months Ended February 28, 2013		
	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Foreign Currency Translation Adjustments	$(0.6)	$—	$(0.6)	$0.7	$—	$0.7
Defined Benefit Pension Plans:						
Prior service cost from plan amendment during period	—	—	—	(5.5)	2.2	(3.3)
Amortization of defined benefit pension items:						
Prior service cost	0.1 (1)	—	0.1	0.3 (1)	(0.1)	0.2

Actuarial losses	1.6	(1) (0.6)	1.0	3.2	(1) (1.1)	2.1
Total Defined Benefit Plans, net	1.7	(0.6)	1.1	(2.0)	1.0	(1.0)
Other Comprehensive Income/(Expense)	$1.1	$(0.6)	$0.5	$(1.3)	$1.0	$(0.3)

(1) These accumulated other comprehensive income components are included in net periodic pension cost. See footnote 14 Pension and Profit Sharing Plans for additional details.

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11. Debt

Lines of Credit

On January 31, 2012, the Company executed a $250.0 revolving credit facility (the “Revolving Credit Facility”). The Revolving Credit Facility replaced the Company’s prior $250.0 revolving credit facility (the “prior facility”), which was scheduled to mature on October 19, 2012. The Company recognized a write-off of less than $0.1 in deferred financing costs in connection with the early termination of the prior facility. The Revolving Credit Facility will mature and all amounts outstanding will be due and payable on January 31, 2017.

The Revolving Credit Facility contains financial covenants, including a minimum interest coverage ratio (“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 and a Minimum Interest Coverage Ratio of 2.50, subject to certain conditions defined in the financing agreement. The Company was in compliance with all financial covenants under the Revolving Credit Facility as of February 28, 2013. At February 28, 2013, the Company had additional borrowing capacity under the Revolving Credit Facility of $244.3 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 $5.7 issued under the Revolving Credit Facility. As of February 28, 2013, the Company had outstanding letters of credit totaling $9.9, primarily for securing collateral requirements under the casualty insurance programs for Acuity Brands and providing credit support for the Company’s industrial revenue bond, including $5.7 issued under the Revolving Credit Facility.

Generally, amounts outstanding under the Revolving Credit Facility bear interest at a “Eurocurrency Rate”. Eurocurrency rate advances can be denominated in a variety of currencies, including U.S. Dollars, and amounts outstanding bear interest at a periodic fixed rate equal to the London Inter Bank Offered Rate (“LIBOR”) for the applicable currency plus a margin as determined by Acuity Brands' leverage ratio (“Applicable Margin”). The Applicable Margin is based on the Company’s leverage ratio, as defined in the Revolving Credit Facility, with such margin ranging from 1.075% to 1.65%.

The Company is required to pay certain fees in connection with the Revolving Credit Facility, including administrative service fees and an annual facility fee. The annual facility fee is payable quarterly in arrears and is determined by the Company’s leverage ratio as defined in the Revolving Credit Facility. This facility fee ranges from 0.175% to 0.35% of the aggregate $250.0 commitment of the lenders under the Revolving Credit Facility.

Notes

At February 28, 2013, the Company had $350.0 of publicly-traded, senior unsecured notes outstanding at a 6% interest rate that are scheduled to mature in December 2019 (the “Notes”) and $4.0 of tax-exempt industrial revenue bonds that are scheduled to mature in 2021. Further discussion of the Company’s debt is included within the Debt and Lines of Credit footnote 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 benefits, 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		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Interest expense	$8.0	$7.8	$15.8	$15.7
Interest income	(0.2)	(0.1)	(0.3)	(0.3)

Interest expense, net	$7.8	$7.7	$15.5	$15.4

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Cash paid for interest as reported on the Consolidated Statements of Cash Flows as supplemental cash flow information for the six months ended February 28, 2013 and February 29, 2012 totaled $20.4 and $20.9, respectively. The prior-year period amount was revised for consistency with the first six months of fiscal 2013.

12. Commitments and Contingencies

In the normal course of business, the Company is subject to the effects of certain contractual stipulations, events, transactions, and laws and regulations that may, at times, require the recognition of liabilities, such as those related to self-insurance reserves and claims, legal and contractual issues, environmental laws and regulations, guarantees, and indemnities. The Company establishes reserves when the associated costs related to uncertainties or guarantees become probable and can be reasonably estimated. For the period ended February 28, 2013, no material changes have occurred in the Company's reserves for self-insurance, litigation, environmental matters, or guarantees and indemnities, or relevant events and circumstances, from those disclosed in the Commitments and Contingencies footnote of the Notes to the Consolidated Financial Statements within the Company’s Form 10-K.

For more information on the Company’s commitments and contingencies, please refer to the Commitments and Contingencies footnote of the Notes to the Consolidated Financial Statements within the Company’s Form 10-K.

Product Warranty and Recall Costs

Acuity Brands 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. Estimated recall costs are recognized upon such time that the Company becomes aware of product defects and other issues. If actual future warranty costs exceed historical amounts or unforeseen recall costs occur, 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.

As of August 31, 2012, the Company had product warranty and recall reserves of $4.0. During the six months ended February 28, 2013, the Company made payments or provided replacement materials in the aggregate amount of $3.3 related to warranty claims and recognized additional estimated warranty and recall liabilities of $3.2. As of February 28, 2013, the Company had remaining product warranty and recall reserves of $3.9 included in Other accrued liabilities on the Consolidated Balance Sheets.

Loss Contingency

On March 25, 2013, a freight payment and audit service provider (“freight service company”) provided notice to the Company that all freight payment services would immediately cease as a result of a failure in the freight service company's internal system for processing and making payments stemming from a fraud at the freight service company. As a result, the Company may have incurred a loss to the extent that funds disbursed by the Company to the freight service company are not subsequently remitted to freight carriers that provided services to the Company. Based on information currently available, the Company is unable to estimate the amount of potential loss, if any. It is the opinion of management based on available information that any ultimate loss will not have a material adverse effect on the financial condition or results of operations of Acuity Brands.

13. 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 is more fully discussed within the Company’s Form 10-K. The Company recorded $4.3 and $4.0 of share-based expense for the three months ended February 28, 2013 and February 29, 2012, respectively, and $8.6 and $8.1 of share-based expense for the six months ended February 28, 2013 and February 29, 2012, respectively. Benefits of tax deductions in excess of recognized share-based compensation cost are reported as a financing cash flow, rather than as an operating cash flow, and were $0.4 and $3.0 for the three months ended February 28, 2013 and February 29, 2012, respectively, and were $5.8 and $4.1 for the six months ended February 28, 2013 and February 29, 2012, respectively. Shares issued upon exercise of stock options were 22,638 and 235,703 for the three months ended February 28, 2013 and February 29, 2012, respectively. Shares issued upon exercise of stock options were 308,019 and 293,082 for the six months ended February 28, 2013 and February 29, 2012, respectively.

14. Pension and Profit Sharing 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. 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 six months ended February 28, 2013 and February 29, 2012 included the following components:

	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012