ACUITY BRANDS INC
Form 10-Q
July 01, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended May 31, 2014.
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)	

None
(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 — 43,214,658 shares as of June 27, 2014.

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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)

	May 31, 2014 (unaudited)	August 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$467.3	$359.1
Accounts receivable, less reserve for doubtful accounts of $2.1 and $1.5 as of May 31, 2014 and August 31, 2013, respectively	352.5	318.3
Inventories	213.8	203.0
Deferred income taxes	15.4	13.6
Prepayments and other current assets	21.0	19.5
Total Current Assets	1,070.0	913.5
Property, Plant, and Equipment, at cost:		
Land	6.8	7.2
Buildings and leasehold improvements	110.4	109.6
Machinery and equipment	375.6	354.5
Total Property, Plant, and Equipment	492.8	471.3
Less — Accumulated depreciation and amortization	344.6	323.4
Property, Plant, and Equipment, net	148.2	147.9
Other Assets:		
Goodwill	570.1	568.2
Intangible assets, net	235.3	245.1
Deferred income taxes	1.5	1.7
Other long-term assets	24.7	27.4
Total Other Assets	831.6	842.4
Total Assets	$2,049.8	$1,903.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$256.6	$249.5
Accrued compensation	34.6	28.0
Accrued pension liabilities, current	1.2	1.2
Other accrued liabilities	116.3	107.5
Total Current Liabilities	408.7	386.2
Long-Term Debt	353.6	353.6
Accrued Pension Liabilities, less current portion	48.8	54.7
Deferred Income Taxes	56.4	53.9
Self-Insurance Reserves, less current portion	7.4	7.0
Other Long-Term Liabilities	50.1	54.9
Total Liabilities	925.0	910.3
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; 52,565,317 issued and 42,846,062 outstanding at May 31, 2014; 52,205,933 issued and 42,486,678 outstanding at August 31, 2013	0.5	0.5

Paid-in capital	758.0	735.5
Retained earnings	844.4	740.3
Accumulated other comprehensive loss	(57.9)	(62.6)
Treasury stock, at cost, 9,719,255 shares at May 31, 2014 and August 31, 2013	(420.2)	(420.2)
Total Stockholders’ Equity	1,124.8	993.5
Total Liabilities and Stockholders’ Equity	$2,049.8	$1,903.8

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

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

	Three Months Ended		Nine Months Ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Net Sales	$603.9	$541.5	$1,724.8	$1,509.3
Cost of Products Sold	360.5	320.4	1,029.1	909.0
Gross Profit	243.4	221.1	695.7	600.3
Selling, Distribution, and Administrative Expenses	170.8	163.9	487.5	448.8
Special Charge	—	7.2	(0.2)	8.2
Operating Profit	72.6	50.0	208.4	143.3
Other Expense/(Income):				
Interest Expense, net	8.1	7.8	24.1	23.3
Miscellaneous (Income)/Expense, net	(0.1)	(3.0)	0.6	(2.8)
Total Other Expense	8.0	4.8	24.7	20.5
Income before Provision for Income Taxes	64.6	45.2	183.7	122.8
Provision for Income Taxes	20.8	13.5	62.7	40.3
Net Income	$43.8	$31.7	$121.0	$82.5
Earnings Per Share:				
Basic Earnings per Share	$1.01	$0.74	$2.81	$1.93
Basic Weighted Average Number of Shares Outstanding	42.8	42.2	42.7	42.0
Diluted Earnings per Share	$1.01	$0.73	$2.79	$1.91
Diluted Weighted Average Number of Shares Outstanding	43.1	42.6	43.0	42.4
Dividends Declared per Share	$0.13	$0.13	$0.39	$0.39
Comprehensive Income:				
Net Income	$43.8	$31.7	$121.0	$82.5
Other Comprehensive Income/(Expense) Items:				
Foreign currency translation adjustments	1.8	(0.6)	2.8	0.1
Defined benefit pension plans, net of tax	0.7	1.2	1.9	0.2
Other Comprehensive Income/(Expense), net of tax	2.5	0.6	4.7	0.3
Comprehensive Income	$46.3	$32.3	$125.7	$82.8

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)

	Nine Months Ended May 31	
	2014	2013
Cash Provided by/(Used for) Operating Activities:		
Net income	$121.0	$82.5
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	32.2	30.2
Share-based compensation expense	13.2	12.8
Excess tax benefits from share-based payments	(10.5)	(6.6)
(Gain) Loss on the sale or disposal of property, plant, and equipment	0.1	(2.4)
Asset impairments	—	0.3
Deferred income taxes	0.7	2.0
Change in assets and liabilities, net of effect of acquisitions, divestitures, and effect of exchange rate changes:		
Accounts receivable	(34.0)	(35.6)
Inventories	(10.4)	(4.7)
Prepayments and other current assets	(0.1)	(0.1)
Accounts payable	6.6	5.3
Other current liabilities	25.6	(7.4)
Other	(15.6)	(8.5)
Net Cash Provided by Operating Activities	128.8	67.8
Cash Provided by/(Used for) Investing Activities:		
Purchases of property, plant, and equipment	(24.8)	(31.4)
Proceeds from sale of property, plant, and equipment	0.9	7.4
Acquisitions of business and intangible assets, net of cash acquired	—	(25.5)
Net Cash Used for Investing Activities	(23.9)	(49.5)
Cash Provided by/(Used for) Financing Activities:		
Proceeds from stock option exercises and other	8.3	10.0
Excess tax benefits from share-based payments	10.5	6.6
Dividends paid	(16.9)	(16.8)
Net Cash Provided by/(Used for) Financing Activities	1.9	(0.2)
Effect of Exchange Rate Changes on Cash	1.4	(0.7)
Net Change in Cash and Cash Equivalents	108.2	17.4
Cash and Cash Equivalents at Beginning of Period	359.1	284.5
Cash and Cash Equivalents at End of Period	$467.3	$301.9
Supplemental Cash Flow Information:		
Income taxes paid during the period	$55.0	$33.2
Interest paid during the period	$21.4	$20.6

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

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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 (Acuity Brands, ABL, and such other subsidiaries are 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.

The Company has made several acquisitions over the last five years to expand and enhance its portfolio of lighting solutions, including the following recent acquisitions:

On March 13, 2013, the Company acquired for cash, including potential additional cash payments that may be paid in future periods under earn-out provisions, 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, the Netherlands. The operating results of eldoLED have been included in the Company's consolidated financial statements since the date of 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 for Adura 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.

These unaudited 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, 2014, the consolidated statements of comprehensive income for the three and nine months ended May 31, 2014 and 2013, and the consolidated cash flows for the nine months ended May 31, 2014 and 2013. 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, 2013 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 29, 2013 (File No. 001-16583) (“Form 10-K”).

The results of operations for the three and nine months ended May 31, 2014 and 2013 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, among other reasons, of the continued uncertainty of general economic conditions that may impact the key end markets of the Company for the remainder of fiscal 2014.

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 occurred during the current period.

3. New Accounting Pronouncements
Accounting Standards Adopted in Fiscal 2014
In July 2012, the Financial Accounting Standards Board ("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, a 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 adopted ASU 2012-02 in the first quarter of fiscal 2014. The provisions of ASU 2012-02 did not have a material effect on the Company’s financial condition, results of operations, and cash flows.
In January 2013, the FASB issued ASU No. 2013-01, Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities (“ASU 2013-01”), which amended ASC Subtopic 210-20, Balance Sheet - Offsetting. ASU 2013-01 clarified the scope of ASU 2011-11, Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"). ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of that entity's financial statements to understand the effect of those arrangements on its financial position. ASU 2013-01 clarifies the scope of ASU 2011-11 as applying to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset either in accordance with other requirements of the Accounting Standards Codification or subject to an enforceable master netting arrangement or similar arrangement. The provisions of ASU 2011-11 and ASU 2013-01 are effective retrospectively to all comparative periods for public entities during annual reporting periods beginning after January 1, 2013 (effective date) and interim reporting periods therein. The Company adopted ASU 2011-11 and ASU 2013-01 in the first quarter of fiscal 2014. The provisions of ASU 2011-11 and ASU 2013-01 did not have a material effect on the Company’s financial condition, results of operations, and cash flows.
Accounting Standards Yet to Be Adopted
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 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 2013-05 but does not expect it to have a material effect on the Company's financial condition, results of operations, and cash flows.
In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) (“ASU 2013-11”), which applies to the presentation of unrecognized tax benefits as a liability on the balance sheet when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to

settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. ASU 2013-11 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 2013-11 but does not expect it to have a material effect on the Company's financial condition, results of operations, and cash flows.
In May 2014, the FASB issued ASU No. 2014-09, Revenue From Contracts With Customers ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2016. The

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Company is currently reviewing the provisions of ASU 2014-09 but does not expect it to have a material effect on the Company's financial condition, results of operations, and cash flows.

4. Acquisitions

The Company has actively pursued opportunities for investment and growth through acquisitions. The Company has acquired businesses that participate in the lighting solutions 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.

eldoLED Acquisition

On March 13, 2013, the Company acquired for cash, including potential additional cash payments that may be paid in future periods under earn-out provisions, 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, the Netherlands. Potential cash payments related to the earn-out provisions are payable beginning in fiscal 2014 and ending in fiscal 2017 subject to achievement of the earn-out provisions. The operating results of eldoLED 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. Management finalized the acquisition accounting for eldoLED during the second quarter of fiscal 2014 and the amounts are reflected in the Consolidated Balance Sheets.

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. Management finalized the acquisition accounting for Adura during the first quarter of fiscal 2014 and the amounts are reflected in the Consolidated Balance Sheets.

5. Assets Held For Sale

The Company classifies long-lived assets as held for sale upon the development of a plan for disposal and meeting the other requirements in accordance with applicable U.S. GAAP and ceases the depreciation and amortization of the assets at that date. The Company is actively marketing its four properties classified as held for sale. As of May 31, 2014, the carrying value of the properties held for sale was $6.7, of which $3.9 is included in Prepayments and other current assets and $2.8 is included in Other long-term assets on the Consolidated Balance Sheets.

6. Fair Value Measurements

The Company determines fair value measurements based on the assumptions a market participant would use in pricing the 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 May 31, 2014 and August 31, 2013:

	Fair Value Measurements as of:							
	May 31, 2014				August 31, 2013			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:								
Cash and cash equivalents	$467.3	$—	$—	$467.3	$359.1	$—	$—	$359.1
Other	0.6	—	—	0.6	0.7	—	—	0.7
Liabilities:								
Other	$0.6	$—	$13.6	$14.2	$0.7	$—	$12.1	$12.8

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:

The fair value of Level 1 assets and liabilities is determined based on quoted market prices.

The fair value of Level 3 liabilities is estimated using a discounted cash flow technique with significant inputs that are not observable in the market, appropriately discounted considering the uncertainties associated with the obligation. Changes in these inputs, including probability assessments or the discount rate, could result in a higher or lower fair value measurement. Any reasonably likely change in the assumptions used in the analysis would not result in a material change to the fair value of these liabilities.

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.

The Company's Level 3 liabilities consist of certain acquisition-related liabilities. The change in these liabilities during fiscal 2014 was due to a $1.1 increase in the estimated fair value and a $0.4 increase due to currency rate fluctuations in the period. The expense associated with the change in the estimated fair value was included in Selling, Distribution, and Administrative Expenses within the Consolidated Statements of Comprehensive Income.

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 May 31, 2014 and August 31, 2013:

	May 31, 2014		August 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Senior unsecured public notes, net of unamortized discount	$349.6	$395.4	$349.6	$381.5

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 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; therefore, the Company estimates that the face amount of the bond approximates fair value as of May 31, 2014 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.

The Company recorded amortization expense of $2.8 and $2.8 related to intangible assets with finite lives during the three months ended May 31, 2014 and 2013, respectively, and $8.4 and $8.0 during the nine months ended May 31, 2014 and 2013, respectively. Amortization expense is generally recorded on a straight-line basis and is expected to be approximately $11.3 in fiscal 2014, $11.1 in fiscal 2015, $10.5 in fiscal 2016, $10.2 in fiscal 2017, and $10.2 in fiscal 2018.

The changes in the carrying amount of goodwill during the nine months ended May 31, 2014 are summarized as follows:

Balance at August 31, 2013	$568.2
Adjustments for acquired businesses	1.4
Foreign currency translation adjustments	0.5
Balance at May 31, 2014	$570.1

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:

	May 31, 2014	August 31, 2013
Raw materials, supplies, and work in process[1]	$118.6	$122.6
Finished goods	106.8	90.9
	225.4	213.5
Less: Reserves	(11.6)	(10.5)
Total Inventory	$213.8	$203.0

(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. The new equity plan approved in January 2013 changed the dividend provisions causing share-based payment awards to lose the right to receive nonforfeitable dividends. Due to this change, any shares granted after January 2013 are not participating securities as prescribed by the two-class method under ASC 260 and are accounted for in the diluted earnings per share calculation described below.

Diluted earnings per share is computed similarly but reflects the potential dilution that would occur if dilutive options were exercised, restricted stock awards (unvested share-based payment awards without a right to receive nonforfeitable dividends) were vested, and other distributions related to deferred stock agreements were incurred. Stock options of approximately 47,847 and 72,736 for the three months ended May 31, 2014 and 2013, respectively, and approximately 57,845 and 88,327 for the nine months ended May 31, 2014 and 2013, respectively, were excluded from the diluted earnings per share calculation as the effect of inclusion would have been antidilutive. Restricted stock of approximately 13,988 for the three months ended May 31, 2014, and approximately 4,714 for the nine months ended May 31, 2014, were excluded from the diluted earnings per share calculation as the effect of inclusion would have been antidilutive. There were no shares of restricted stock excluded from the diluted earnings per share calculation for the three and nine months ended May 31, 2013. 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 nine months ended May 31, 2014 and 2013:

	Three Months Ended		Nine Months Ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Basic Earnings per Share:				
Net income	$43.8	$31.7	$121.0	$82.5
Less: Income attributable to participating securities	(0.4)	(0.5)	(1.2)	(1.3)
Net income available to common shareholders	$43.4	$31.2	$119.8	$81.2
Basic weighted average shares outstanding	42.8	42.2	42.7	42.0
Basic earnings per share	$1.01	$0.74	$2.81	$1.93
Diluted Earnings per Share:				
Net income	$43.8	$31.7	$121.0	$82.5
Less: Income attributable to participating securities	(0.4)	(0.5)	(1.2)	(1.3)
Net income available to common shareholders	$43.4	$31.2	$119.8	$81.2
Basic weighted average shares outstanding	42.8	42.2	42.7	42.0
Common stock equivalents	0.3	0.4	0.3	0.4
Diluted weighted average shares outstanding	43.1	42.6	43.0	42.4
Diluted earnings per share	$1.01	$0.73	$2.79	$1.91

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 loss:

	Foreign Currency Items	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss Items
Balance at August 31, 2013	$(18.8)	$(43.8)	$(62.6)
Other Comprehensive Income/(Expense) before reclassifications	2.8	—	2.8
Amounts reclassified from accumulated other comprehensive income	—	1.9	1.9
Net current-period Other Comprehensive Income/(Expense)	2.8	1.9	4.7
Balance at May 31, 2014	$(16.0)	$(41.9)	$(57.9)

The following table presents the tax (expense)/benefit allocated to each component of other comprehensive income/(expense) for the three months ended May 31, 2014 and 2013:

	Three Months Ended					
	May 31, 2014			May 31, 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	$1.8	$ —	$1.8	$(0.6)	$ —	$(0.6)
Defined Benefit Pension Plans:						
Amortization of defined benefit pension items:						
Prior service cost	0.2 (1)	(0.1)	0.1	0.2 (1)	(0.1)	0.1
Actuarial losses	0.8 (1)	(0.2)	0.6	1.6 (1)	(0.5)	1.1
Total Defined Benefit Pension Plans, net	1.0	(0.3)	0.7	1.8	(0.6)	1.2
Other Comprehensive Income/(Expense)	$2.8	$ (0.3)	$2.5	$1.2	$ (0.6)	$0.6

(1) These accumulated other comprehensive income components are included in net periodic pension cost. See Pension and Profit Sharing Plans footnote within the Notes to Consolidated Financial Statements for additional details.

The following table presents the tax (expense)/benefit allocated to each component of other comprehensive income/(expense) for the nine months ended May 31, 2014 and 2013:

	Nine Months Ended					
	May 31, 2014			May 31, 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	$2.8	$ —	$2.8	$0.1	$ —	$0.1
Defined Benefit Pension Plans:						
Prior service cost from plan amendment	—	—	—	(5.5)	2.2	(3.3)
Amortization of defined benefit pension items:						
Prior service cost	0.6 (1)	(0.2)	0.4	0.5 (1)	(0.1)	0.4
Actuarial losses	2.3 (1)	(0.8)	1.5	4.7 (1)	(1.6)	3.1

Total Defined Benefit Pension Plans, net	2.9	(1.0)	1.9	(0.3)	0.5	0.2
Other Comprehensive Income/(Expense)	$5.7	$ (1.0)	$4.7	$(0.2)	$ 0.5	$0.3

(1) These accumulated other comprehensive income components are included in net periodic pension cost. See Pension and Profit Sharing Plans footnote within the Notes to Consolidated Financial Statements 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 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 May 31, 2014. At May 31, 2014, the Company had additional borrowing capacity under the Revolving Credit Facility of $243.8 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 $6.2 issued under the Revolving Credit Facility. As of May 31, 2014, the Company had outstanding letters of credit totaling $10.4, 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 $6.2 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 May 31, 2014, 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		Nine Months Ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Interest expense	$8.2	$8.0	$24.4	$23.9
Interest income	(0.1)	(0.2)	(0.3)	(0.6)
Interest expense, net	$8.1	$7.8	$24.1	$23.3

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 May 31, 2014, 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.

Product Warranty and Related Issues

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. Estimated recall costs are recognized upon such time that the Company becomes aware of product defects and other related 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.

The Company and the U.S. Consumer Product Safety Commission announced a recall of certain incandescent emergency light fixtures on May 28, 2014. During the first nine months of fiscal 2014, the Company accrued a liability of $4.5 for the estimated costs associated with this matter. Due to the inherent uncertainty at this stage in estimating costs, including any applicable claims or other liabilities associated with the fixture failures or the Company's handling of this issue, it is possible that there could be additional costs associated with the ultimate resolution of the matter. The Company does not expect the ultimate resolution of this matter to have a material, adverse effect on the financial condition, results of operations, or cash flows of the Company in future periods.

Reserves for product warranty and related issues are included in Other accrued liabilities on the Consolidated Balance Sheets. The changes in the reserves for product warranty and related issues during the nine months ended May 31, 2014 are summarized as follows:

Balance at August 31, 2013	$5.9	
Adjustments to the reserve	6.1	
Payments made during the period	(1.6	)
Balance at May 31, 2014	$10.4	

Litigation

As reported in prior periods, on March 25, 2013, a freight payment and audit service provider, Trendset, Inc. (“Trendset”), provided notice to its customers that all freight payment services would immediately cease as a result of fraud at Trendset. Management believes that the Company incurred a loss primarily related to funds disbursed by the Company to Trendset that were not subsequently remitted to freight carriers that provided services on behalf of the Company and additional costs related to recovery efforts. Based on then available information, management estimated that the Company's loss was approximately $8.1 which was previously included in Selling, Distribution, and Administrative Expenses in the Consolidated Statements of Comprehensive Income during fiscal 2013.

During fiscal 2014, the Company received $5.8 in recovery payments related to this loss, consisting primarily of payments under an insurance policy maintained by the Company. These recoveries are included as an offset to expense in Selling, Distribution and Administrative Expenses in the Consolidated Statements of Comprehensive Income and cover a portion of, but not the entirety of, the Company’s loss related to this matter. The Company is evaluating other potential actions to recover the remainder of its loss through multiple sources including, but not limited to, claims against Trendset and claims against certain parties affiliated with Trendset. Numerous other

Trendset customers are also pursuing claims against Trendset for their losses, and several with significant losses filed an involuntary petition commencing a bankruptcy proceeding against Trendset under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code"). Based on available information, management cannot estimate the likelihood, amount or timing of any further potential recovery. Any future recovery would be recorded when realized. The Company may incur additional costs in future periods as a result of these recovery activities. It is the opinion of management that any such future costs, though not currently estimable, will not have a material adverse effect on the financial condition or results of operations of Acuity Brands. Additionally, the Company believes that the Trustee in the Trendset bankruptcy action may attempt, through preference or other actions under the Bankruptcy Code, to recover from the Company or its freight carriers amounts paid by Trendset to the Company's freight carriers during the period prior to Trendset's bankruptcy proceeding. The Company believes that such actions to recover funds from the Company or its freight carriers would be inappropriate and would ultimately be unsuccessful. The Company believes no such loss is probable. The Company further believes that, even if successful, such actions would be unlikely to have a material adverse effect on the Company.

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 Company's equity incentive plan), and share units representing certain deferrals into the Company's director deferred compensation plan or the Company's supplemental deferred savings plan. Each of these award programs is more fully discussed within the Company's Form 10-K. The Company recorded $4.5 and $4.2 of share-based expense for the three months ended May 31, 2014 and 2013, respectively, and $13.2 and $12.8 of share-based expense for the nine months ended May 31, 2014 and 2013, 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 $10.5 and $6.6 for the nine months ended May 31, 2014 and 2013, respectively. New shares issued upon exercise of stock options were 6,933 and 28,510 for the three months ended May 31, 2014 and 2013, respectively, and 198,618 and 336,529 for the nine months ended May 31, 2014 and 2013, respectively.
Further details regarding the Company's share-based payments are included within the Share-Based Payments footnote of the Notes to Consolidated Financial Statements within the Company's Form 10-K.

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 nine months ended May 31, 2014 and 2013 included the following components before tax:

	Three Months Ended		Nine Months Ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Service cost	$0.6	$0.9	$1.9	$2.6
Interest cost	2.1	2.0	6.6	6.0
Expected return on plan assets	(2.5)	(2.2)	(7.5)	(6.5)
Amortization of prior service cost	0.2	0.2	0.6	0.5
Recognized actuarial loss	0.8	1.6	2.3	4.7
Net periodic pension cost	$1.2	$2.5	$3.9	$7.3

On October 23, 2012, the Board of Directors of the Company, following a competitive assessment of executive retirement benefits and with an objective to ensure such company benefits were sufficient to retain and attract executive talent, approved certain amendments to the Acuity Brands, Inc. 2002 Supplemental Executive Retirement Plan ("2002 SERP"). The amendments to the 2002 SERP increased participant benefits requiring the recognition of an additional pre-tax pension liability of $5.5 in fiscal 2013, which is included in the Consolidated Balance Sheets.

15. Special Charge

Fiscal 2013 Actions

During fiscal 2013, the Company continued efforts to streamline the organization through the planned closure of certain production facilities as well as the realignment of responsibilities primarily within various selling, distribution, and administrative departments. The Company expects that these actions to streamline its business activities, in addition to those taken in previous fiscal years, will allow it to reduce costs and enhance customer service capabilities, while permitting continued investment in future growth initiatives, such as new products, expanded market presence, and technology and innovation.

During fiscal 2013, the Company recorded a pre-tax special charge of $7.8 consisting of severance and employee-related costs of $7.6 and lease termination costs of $0.2, which were included in Special Charge in the Consolidated Statements of Comprehensive Income. During fiscal 2014, the Company recognized a reversal of pre-tax special charges of $0.2 due primarily to lower-than-anticipated costs related to severance and employee-related expenses of $0.6 partially offset by production transfer costs of $0.4.

As of May 31, 2014, remaining severance reserves were $0.9 and are included in Accrued Compensation on the Consolidated Balance Sheets. The changes in the reserves related to this program during the nine months ended May 31, 2014 are summarized as follows:

Balance at August 31, 2013	$5.1	
Special charge	(0.6	)
Payments made during the period	(3.6	)
Balance at May 31, 2014	$0.9	

16. Supplemental Guarantor Condensed Consolidating Financial Statements

In December 2009, ABL, the wholly-owned and principal operating subsidiary of the Company, refinanced the then current outstanding debt through the issuance of the Notes. See Debt and Lines of Credit footnote of the Notes to Consolidated Financial Statements within the Company’s Form 10-K for further information.

In accordance with the registration rights agreement by and between ABL and the guarantors to the Notes and the initial purchasers of the Notes, ABL and the guarantors to the Notes filed a registration statement with the SEC for an offer to exchange the Notes for an issue of SEC-registered notes with identical terms. 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 since the Notes are fully and unconditionally guaranteed by Acuity Brands and ABL IP Holding. The column marked “Parent” represents the financial condition, results of operations, and cash flows of Acuity Brands. The column marked “Subsidiary Issuer” represents the financial condition, results of operations, and cash flows of ABL. The column entitled “Subsidiary Guarantor” represents the financial condition, results of operations, and cash flows of ABL IP Holding. Lastly, the column listed as “Non-Guarantors” includes the financial condition, results of operations, and cash flows 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.

CONDENSED CONSOLIDATING BALANCE SHEETS

	May 31, 2014					
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non-Guarantors	Eliminations	Consolidated
ASSETS						
Current Assets:						
Cash and cash equivalents	$435.2	$2.3	$—	$29.8	$ —	$ 467.3
Accounts receivable, net	—	305.5	—	47.0	—	352.5
Inventories	—	199.1	—	14.7	—	213.8
Other current assets	7.0	21.4	—	8.0	—	36.4
Total Current Assets	442.2	528.3	—	99.5	—	1,070.0
Property, Plant, and Equipment, net	0.4	117.0	—	30.8	—	148.2
Goodwill	—	518.0	2.7	49.4	—	570.1
Intangible assets, net	—	88.0	122.5	24.8	—	235.3
Other long-term assets	2.7	17.8	—	5.7	—	26.2
Investments in and amounts due from subsidiaries	727.9	170.9	135.8	(53.7)	(980.9)	—
Total Assets	$1,173.2	$1,440.0	$261.0	$156.5	$ (980.9)	$ 2,049.8
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities:						
Accounts payable	$0.7	$240.5	$—	$15.4	$ —	$ 256.6
Other accrued liabilities	16.6	105.5	—	30.0	—	152.1
Total Current Liabilities	17.3	346.0	—	45.4	—	408.7
Long-Term Debt	—	353.6	—	—	—	353.6
Deferred Income Taxes	(30.0)	85.9	—	0.5	—	56.4
Other Long-Term Liabilities	61.1	28.1	—	17.1	—	106.3
Total Stockholders' Equity	1,124.8	626.4	261.0	93.5	(980.9)	1,124.8
Total Liabilities and Stockholders' Equity	$1,173.2	$1,440.0	$261.0	$156.5	$ (980.9)	$ 2,049.8

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ACUITY BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEETS

	August 31, 2013					
	Parent	Subsidiary Issuer	Subsidiary Guarantor	Non-Guarantors	Eliminations	Consolidated
ASSETS						
Current Assets:						
Cash and cash equivalents	$331.0	$0.8	$—	$27.3	$ —	$ 359.1
Accounts receivable, net	—	270.8	—	47.5	—	318.3
Inventories	—	191.2	—	11.8	—	203.0
Other current assets	4.4	23.0	—	5.7	—	33.1
Total Current Assets	335.4	485.8	—	92.3	—	913.5
Property, Plant, and Equipment, net	0.4	118.1	—	29.4	—	147.9
Goodwill	—	517.0	2.7	48.5	—	568.2
Intangible assets, net	—	99.9	119.2	26.0	—	245.1
Other long-term assets	3.8	19.4	—	5.9	—	29.1
Investments in and amounts due from subsidiaries	701.5	170.7	118.2	(61.5)	(928.9)	—
Total Assets	$1,041.1	$1,410.9	$240.1	$140.6	$ (928.9)	$ 1,903.8
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities:						
Accounts payable	$1.6	$233.2	$—	$14.7	$ —	$ 249.5
Other accrued liabilities	17.0	95.0	—	24.7	—	136.7
Total Current Liabilities	18.6	328.2	—	39.4	—	386.2
Long-Term Debt	—	353.6	—	—	—	353.6
Deferred Income Taxes	(32.5)	85.8	—	0.6	—	53.9
Other Long-Term Liabilities	61.5	33.6	—	21.5	—	116.6
Total Stockholders' Equity	993.5	609.7	240.1	79.1	(928.9)	993.5
Total Liabilities and Stockholders' Equity	$1,041.1	$1,410.9	$240.1	$140.6	$ (928.9)	$ 1,903.8

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended May 31, 2014		
	Parent	Subsidiary Issuer	Subsidiary Guarantor