

EMERSON ELECTRIC CO  
Form 10-Q  
May 06, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

\_\_\_\_\_  
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

OR

¨ 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 1-278

EMERSON ELECTRIC CO.

(Exact name of registrant as specified in its charter)

Missouri

(State or other jurisdiction of  
incorporation or organization)

43-0259330

(I.R.S. Employer  
Identification No.)

8000 W. Florissant Ave.

P.O. Box 4100

St. Louis, Missouri

(Address of principal executive offices)

63136

(Zip Code)

Registrant's telephone number, including area code: (314) 553-2000

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 ý No ¨

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

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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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. Common stock of \$0.50 par value per share outstanding at April 30, 2015: 668,305,066 shares.

## FORM 10-Q

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

EMERSON ELECTRIC CO. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
THREE AND SIX MONTHS ENDED MARCH 31, 2014 AND 2015  
(Dollars in millions, except per share amounts; unaudited)

|                                                                                    | Three Months Ended<br>March 31, |       | Six Months Ended<br>March 31, |        |
|------------------------------------------------------------------------------------|---------------------------------|-------|-------------------------------|--------|
|                                                                                    | 2014                            | 2015  | 2014                          | 2015   |
| Net sales                                                                          | \$5,812                         | 5,400 | 11,418                        | 10,987 |
| Costs and expenses:                                                                |                                 |       |                               |        |
| Cost of sales                                                                      | 3,417                           | 3,234 | 6,787                         | 6,541  |
| Selling, general and administrative expenses                                       | 1,394                           | 1,318 | 2,838                         | 2,723  |
| Gain on sale of business                                                           | —                               | 932   | —                             | 932    |
| Other deductions, net                                                              | 137                             | 136   | 232                           | 200    |
| Interest expense (net of interest income of \$4, \$9, \$11 and \$16, respectively) | 47                              | 40    | 101                           | 86     |
| Earnings before income taxes                                                       | 817                             | 1,604 | 1,460                         | 2,369  |
| Income taxes                                                                       | 263                             | 625   | 429                           | 861    |
| Net earnings                                                                       | 554                             | 979   | 1,031                         | 1,508  |
| Less: Noncontrolling interests in earnings of subsidiaries                         | 7                               | 6     | 22                            | 10     |
| Net earnings common stockholders                                                   | \$547                           | 973   | 1,009                         | 1,498  |
| Basic earnings per share common stockholders                                       | \$0.78                          | 1.42  | 1.43                          | 2.18   |
| Diluted earnings per share common stockholders                                     | \$0.77                          | 1.42  | 1.42                          | 2.17   |
| Cash dividends per common share                                                    | \$0.43                          | 0.47  | 0.86                          | 0.94   |

See accompanying Notes to Consolidated Financial Statements.

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EMERSON ELECTRIC CO. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
THREE AND SIX MONTHS ENDED MARCH 31, 2014 AND 2015  
(Dollars in millions; unaudited)

|                                                                        | Three Months Ended<br>March 31, |        | Six Months Ended<br>March 31, |       |   |
|------------------------------------------------------------------------|---------------------------------|--------|-------------------------------|-------|---|
|                                                                        | 2014                            | 2015   | 2014                          | 2015  |   |
| Net earnings                                                           | \$554                           | 979    | 1,031                         | 1,508 |   |
| Other comprehensive income (loss), net of tax:                         |                                 |        |                               |       |   |
| Foreign currency translation                                           | (4                              | ) (427 | ) 11                          | (732  | ) |
| Pension and postretirement                                             | 24                              | 28     | 47                            | 56    |   |
| Cash flow hedges                                                       | (10                             | ) 1    | (7                            | ) (23 | ) |
| Total other comprehensive income (loss)                                | 10                              | (398   | ) 51                          | (699  | ) |
| Comprehensive income                                                   | 564                             | 581    | 1,082                         | 809   |   |
| Less: Noncontrolling interests in comprehensive income of subsidiaries | 7                               | 6      | 20                            | 9     |   |
| Comprehensive income common stockholders                               | \$557                           | 575    | 1,062                         | 800   |   |

See accompanying Notes to Consolidated Financial Statements.

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EMERSON ELECTRIC CO. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts; unaudited)

|                                                                                                                                                                    | Sept 30, 2014 | Mar 31, 2015 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|--------------|
| <b>ASSETS</b>                                                                                                                                                      |               |              |
| Current assets                                                                                                                                                     |               |              |
| Cash and equivalents                                                                                                                                               | \$3,149       | 3,256        |
| Receivables, less allowances of \$114 and \$97, respectively                                                                                                       | 5,019         | 4,299        |
| Inventories                                                                                                                                                        | 2,057         | 2,107        |
| Other current assets                                                                                                                                               | 642           | 682          |
| Total current assets                                                                                                                                               | 10,867        | 10,344       |
| Property, plant and equipment, net                                                                                                                                 | 3,802         | 3,570        |
| Other assets                                                                                                                                                       |               |              |
| Goodwill                                                                                                                                                           | 7,182         | 6,805        |
| Other intangible assets                                                                                                                                            | 1,689         | 1,555        |
| Other                                                                                                                                                              | 637           | 694          |
| Total other assets                                                                                                                                                 | 9,508         | 9,054        |
| Total assets                                                                                                                                                       | \$24,177      | 22,968       |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                      |               |              |
| Current liabilities                                                                                                                                                |               |              |
| Short-term borrowings and current maturities of long-term debt                                                                                                     | \$2,465       | 3,358        |
| Accounts payable                                                                                                                                                   | 2,951         | 2,407        |
| Accrued expenses                                                                                                                                                   | 2,876         | 2,595        |
| Income taxes                                                                                                                                                       | 162           | 410          |
| Total current liabilities                                                                                                                                          | 8,454         | 8,770        |
| Long-term debt                                                                                                                                                     | 3,559         | 3,272        |
| Other liabilities                                                                                                                                                  | 1,997         | 1,958        |
| Equity                                                                                                                                                             |               |              |
| Common stock, \$0.50 par value; authorized, 1,200,000,000 shares; issued, 953,354,012 shares; outstanding, 696,605,222 shares and 673,858,557 shares, respectively | 477           | 477          |
| Additional paid-in-capital                                                                                                                                         | 161           | 173          |
| Retained earnings                                                                                                                                                  | 19,867        | 20,718       |
| Accumulated other comprehensive income (loss)                                                                                                                      | (575)         | (1,273)      |
| Cost of common stock in treasury, 256,748,790 shares and 279,495,455 shares, respectively                                                                          | (9,811)       | (11,177)     |
| Common stockholders' equity                                                                                                                                        | 10,119        | 8,918        |
| Noncontrolling interests in subsidiaries                                                                                                                           | 48            | 50           |
| Total equity                                                                                                                                                       | 10,167        | 8,968        |
| Total liabilities and equity                                                                                                                                       | \$24,177      | 22,968       |

See accompanying Notes to Consolidated Financial Statements.



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EMERSON ELECTRIC CO. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED MARCH 31, 2014 AND 2015  
(Dollars in millions; unaudited)

|                                                                                     | Six Months Ended<br>March 31, |         |
|-------------------------------------------------------------------------------------|-------------------------------|---------|
|                                                                                     | 2014                          | 2015    |
| Operating activities                                                                |                               |         |
| Net earnings                                                                        | \$1,031                       | 1,508   |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                               |         |
| Depreciation and amortization                                                       | 419                           | 412     |
| Changes in operating working capital                                                | (273)                         | (530)   |
| Gain on sale of business, net of tax                                                | —                             | (528)   |
| Other, net                                                                          | 89                            | 67      |
| Net cash provided by operating activities                                           | 1,266                         | 929     |
| Investing activities                                                                |                               |         |
| Capital expenditures                                                                | (397)                         | (359)   |
| Purchases of businesses, net of cash and equivalents acquired                       | (576)                         | (145)   |
| Divestitures of businesses                                                          | 268                           | 1,391   |
| Other, net                                                                          | (55)                          | (86)    |
| Net cash (used by) provided by investing activities                                 | (760)                         | 801     |
| Financing activities                                                                |                               |         |
| Net increase (decrease) in short-term borrowings                                    | 145                           | 1,223   |
| Proceeds from short-term borrowings greater than three months                       | 1,669                         | 2,299   |
| Payments of short-term borrowings greater than three months                         | (724)                         | (2,668) |
| Payments of long-term debt                                                          | (321)                         | (251)   |
| Dividends paid                                                                      | (606)                         | (647)   |
| Purchases of common stock                                                           | (596)                         | (1,351) |
| Purchase of noncontrolling interest                                                 | (574)                         | —       |
| Other, net                                                                          | (37)                          | (20)    |
| Net cash used by financing activities                                               | (1,044)                       | (1,415) |
| Effect of exchange rate changes on cash and equivalents                             | (13)                          | (208)   |
| Increase (decrease) in cash and equivalents                                         | (551)                         | 107     |
| Beginning cash and equivalents                                                      | 3,275                         | 3,149   |
| Ending cash and equivalents                                                         | \$2,724                       | 3,256   |
| Changes in operating working capital                                                |                               |         |
| Receivables                                                                         | \$298                         | 408     |
| Inventories                                                                         | (235)                         | (251)   |
| Other current assets                                                                | 12                            | (40)    |
| Accounts payable                                                                    | (75)                          | (310)   |
| Accrued expenses                                                                    | (227)                         | (183)   |
| Income taxes                                                                        | (46)                          | (154)   |
| Total changes in operating working capital                                          | \$(273)                       | (530)   |
| See accompanying Notes to Consolidated Financial Statements.                        |                               |         |



## Notes to Consolidated Financial Statements

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary for a fair presentation of operating results for the interim periods presented. Adjustments consist of normal and recurring accruals. The consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required for annual financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP). For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2014. Certain prior year amounts have been reclassified to conform with current year presentation.

In the first quarter of 2015, the Company adopted updates to ASC 205, Presentation of Financial Statements, and ASC 360, Property, Plant and Equipment, regarding the reporting of discontinued operations. These updates raised the threshold for reporting discontinued operations to a strategic business shift having a major effect on an entity's operations and financial results. The updates also added disclosures for disposals of business units qualifying for discontinued presentation, and for some dispositions that do not qualify as discontinued operations but are still considered individually significant components of the entity.

Reconciliations of weighted average shares for basic and diluted earnings per common share follow (in millions).  
Earnings allocated to participating securities were inconsequential.

|                            | Three Months Ended<br>March 31, |       | Six Months Ended<br>March 31, |       |
|----------------------------|---------------------------------|-------|-------------------------------|-------|
|                            | 2014                            | 2015  | 2014                          | 2015  |
| Basic shares outstanding   | 701.7                           | 680.9 | 702.6                         | 686.1 |
| Dilutive shares            | 3.5                             | 3.2   | 4.1                           | 3.3   |
| Diluted shares outstanding | 705.2                           | 684.1 | 706.7                         | 689.4 |

## 3. Other Financial Information (in millions):

|                                        | Sept 30, 2014 | Mar 31, 2015 |
|----------------------------------------|---------------|--------------|
| Inventories                            |               |              |
| Finished products                      | \$741         | 762          |
| Raw materials and work in process      | 1,316         | 1,345        |
| Total                                  | \$2,057       | 2,107        |
| Property, plant and equipment, net     |               |              |
| Property, plant and equipment, at cost | \$9,411       | 8,911        |
| Less: Accumulated depreciation         | 5,609         | 5,341        |
| Total                                  | \$3,802       | 3,570        |
| Goodwill by business segment           |               |              |
| Process Management                     | \$2,701       | 2,703        |
| Industrial Automation                  | 1,329         | 1,037        |
| Network Power                          | 2,218         | 2,147        |
| Climate Technologies                   | 500           | 491          |
| Commercial & Residential Solutions     | 434           | 427          |
| Total                                  | \$7,182       | 6,805        |

The gross carrying amount of goodwill for the Company was \$7,451 million and \$7,828 million as of March 31, 2015 and September 30, 2014, respectively. Accumulated pretax impairment losses were \$646 million at the end of both periods, all in the Network Power segment. The change in goodwill since September 30, 2014 is primarily due to the sale of the power transmission solutions business (previously reported in the Industrial Automation segment) as well as foreign currency translation. See Note 11.

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|                                                 | Sept 30, 2014 | Mar 31, 2015 |
|-------------------------------------------------|---------------|--------------|
| Accrued expenses include the following          |               |              |
| Employee compensation                           | \$705         | 534          |
| Customer advanced payments                      | \$455         | 466          |
| Product warranty                                | \$193         | 170          |
| Other liabilities                               |               |              |
| Pension plans                                   | \$564         | 538          |
| Deferred income taxes                           | 572           | 543          |
| Postretirement plans, excluding current portion | 233           | 216          |
| Other                                           | 628           | 661          |
| Total                                           | \$1,997       | 1,958        |

4. Following is a discussion regarding the Company's use of financial instruments:

**Hedging Activities** – As of March 31, 2015, the notional amount of foreign currency hedge positions was approximately \$1.8 billion, while commodity hedge contracts totaled approximately 83 million pounds (\$218 million) of copper and aluminum. All derivatives receiving deferral accounting are cash flow hedges. The majority of hedging gains and losses deferred as of March 31, 2015 are expected to be recognized over the next 12 months as the underlying forecasted transactions occur. Gains and losses on foreign currency derivatives reported in other deductions, net reflect hedges of balance sheet exposures that do not receive deferral accounting. The following gains and losses are included in earnings and other comprehensive income (OCI) for the three and six months ended March 31, 2015 and 2014 (in millions):

|                  | Location              | Into Earnings |      | Six Months  |       | Into OCI    |      | Six Months  |       |
|------------------|-----------------------|---------------|------|-------------|-------|-------------|------|-------------|-------|
|                  |                       | 2nd Quarter   |      | 2nd Quarter |       | 2nd Quarter |      | 2nd Quarter |       |
| Gains (Losses)   |                       | 2014          | 2015 | 2014        | 2015  | 2014        | 2015 | 2014        | 2015  |
| Commodity        | Cost of sales         | \$(2 )        | (8 ) | (5 )        | (10 ) | (18 )       | (7 ) | (16 )       | (19 ) |
| Foreign currency | Sales, cost of sales  | 1             | 1    | 3           | —     | 1           | 4    | 2           | (27 ) |
| Foreign currency | Other deductions, net | (7 )          | 31   | (10 )       | 14    |             |      |             |       |
| Total            |                       | \$(8 )        | 24   | (12 )       | 4     | (17 )       | (3 ) | (14 )       | (46 ) |

Regardless of whether derivatives receive deferral accounting, the Company expects hedging gains or losses to be essentially offset by losses or gains on the related underlying exposures. The amounts ultimately recognized will differ from those presented above for open positions, which remain subject to ongoing market price fluctuations until settlement. Derivatives receiving deferral accounting are highly effective and no amounts were excluded from the assessment of hedge effectiveness. Hedge ineffectiveness was immaterial for the three and six months ended March 31, 2015 and 2014.

**Fair Value Measurement** – Valuations for all derivatives and the Company's long-term debt fall within Level 2 of the GAAP valuation hierarchy. As of March 31, 2015, the fair value of long-term debt was \$4,228 million, which exceeded the carrying value by \$395 million. At March 31, 2015, the fair values of commodity contracts and foreign currency contracts were reported in other current assets and accrued expenses. Valuations of derivative contract positions are summarized below (in millions):

|                  | September 30, 2014 |             | March 31, 2015 |             |
|------------------|--------------------|-------------|----------------|-------------|
|                  | Assets             | Liabilities | Assets         | Liabilities |
| Foreign Currency | \$32               | 20          | 57             | 70          |
| Commodity        | \$1                | 10          | 1              | 20          |



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Counterparties to derivatives arrangements are companies with high credit ratings. The Company has bilateral collateral arrangements with counterparties with credit rating-based posting thresholds that vary depending on the arrangement. If credit ratings on the Company's debt fall below preestablished levels, counterparties can require immediate full collateralization of all derivatives in net liability positions. The Company can demand full collateralization of derivatives in net asset positions should any counterparty credit ratings fall below certain thresholds. No collateral was posted with counterparties and none was held by the Company as of March 31, 2015. The maximum collateral that could have been required was \$48 million.

5. The change in equity for the first six months of 2015 is shown below (in millions):

|                                   | Common<br>Stockholders'<br>Equity | Noncontrolling<br>Interests in<br>Subsidiaries | Total Equity |
|-----------------------------------|-----------------------------------|------------------------------------------------|--------------|
| Balance at September 30, 2014     | \$ 10,119                         | 48                                             | 10,167       |
| Net earnings                      | 1,498                             | 10                                             | 1,508        |
| Other comprehensive income (loss) | (698                              | ) (1                                           | ) (699       |
| Cash dividends                    | (647                              | ) (7                                           | ) (654       |
| Net purchases of common stock     | (1,354                            | ) —                                            | (1,354       |
| Balance at March 31, 2015         | \$ 8,918                          | 50                                             | 8,968        |

6. Activity in accumulated other comprehensive income (loss) for the three and six months ended March 31, 2015 and 2014 is shown below (in millions):

|                                                                     | Three Months Ended<br>March 31, |        | Six Months Ended<br>March 31, |        |
|---------------------------------------------------------------------|---------------------------------|--------|-------------------------------|--------|
|                                                                     | 2014                            | 2015   | 2014                          | 2015   |
| Foreign currency translation                                        |                                 |        |                               |        |
| Beginning balance                                                   | \$ 521                          | (133   | ) 504                         | 171    |
| Other comprehensive income (loss)                                   | (4                              | ) (427 | ) 13                          | (731   |
| Purchase of noncontrolling interest                                 | 8                               | —      | 8                             | —      |
| Ending balance                                                      | 525                             | (560   | ) 525                         | (560   |
| Pension and postretirement                                          |                                 |        |                               |        |
| Beginning balance                                                   | (669                            | ) (718 | ) (692                        | ) (746 |
| Amortization of deferred actuarial losses into earnings             | 24                              | 27     | 47                            | 55     |
| Divestiture of business                                             | —                               | 1      | —                             | 1      |
| Ending balance                                                      | (645                            | ) (690 | ) (645                        | ) (690 |
| Cash flow hedges                                                    |                                 |        |                               |        |
| Beginning balance                                                   | 2                               | (24    | ) (1                          | ) —    |
| Deferral of gains (losses) arising during the period                | (11                             | ) (3   | ) (8                          | ) (29  |
| Reclassification of realized (gain) loss to sales and cost of sales | 1                               | 4      | 1                             | 6      |
| Ending balance                                                      | (8                              | ) (23  | ) (8                          | ) (23  |

Accumulated other comprehensive income (loss) \$(128) (1,273) (128) (1,273)

Activity above is shown net of income taxes for the three and six months ended March 31, 2014 and 2015, respectively, as follows: amortization of pension and postretirement deferred actuarial losses: \$(13), \$(15), \$(26) and \$(30); deferral of cash flow hedging gains (losses): \$6, \$ -, \$6 and \$17; reclassification of realized cash flow hedging (gains) losses: \$ -, \$(3), \$(1) and \$(4).



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7. Total periodic pension and postretirement expense is summarized below (in millions):

|                                | Three Months Ended<br>March 31, |       | Six Months Ended<br>March 31, |        |
|--------------------------------|---------------------------------|-------|-------------------------------|--------|
|                                | 2014                            | 2015  | 2014                          | 2015   |
| Service cost                   | \$23                            | 27    | 47                            | 54     |
| Interest cost                  | 60                              | 61    | 122                           | 121    |
| Expected return on plan assets | (86                             | ) (92 | ) (172                        | ) (184 |
| Net amortization               | 37                              | 42    | 73                            | 85     |
| Total                          | \$34                            | 38    | 70                            | 76     |

8. Other deductions, net are summarized below (in millions):

|                               | Three Months Ended<br>March 31, |      | Six Months Ended<br>March 31, |      |
|-------------------------------|---------------------------------|------|-------------------------------|------|
|                               | 2014                            | 2015 | 2014                          | 2015 |
| Amortization of intangibles   | \$58                            | 53   | 115                           | 108  |
| Rationalization of operations | 21                              | 44   | 34                            | 53   |
| Other                         | 58                              | 39   | 83                            | 39   |
| Total                         | \$137                           | 136  | 232                           | 200  |

Other for the second quarter primarily reflects the comparative effect of the prior year equity loss of \$34 million from the Company's investment in Artesyn Embedded Technologies. The year-to-date change includes the equity loss and a favorable foreign currency transaction impact of \$20 million due to lower losses in the current year.

Rationalization of operations expense reflects costs associated with the Company's ongoing efforts to improve operational efficiency and deploy assets globally in order to remain competitive on a worldwide basis. The Company expects full year 2015 rationalization expense to exceed \$140 million. This includes the \$53 million incurred to date, as well as costs to complete actions initiated before the end of the second quarter and actions anticipated to be approved and initiated during the remainder of the year. Costs for the three and six months ended March 31, 2015 largely relate to selective repositioning of the global cost structure to match the current level of economic activity, as well as the redeployment of resources for future growth.

Rationalization of operations expense by segment is provided below (in millions):

|                                    | Three Months Ended<br>March 31, |      | Six Months Ended<br>March 31, |      |
|------------------------------------|---------------------------------|------|-------------------------------|------|
|                                    | 2014                            | 2015 | 2014                          | 2015 |
| Process Management                 | \$5                             | 22   | 8                             | 25   |
| Industrial Automation              | 3                               | 2    | 5                             | 4    |
| Network Power                      | 6                               | 13   | 10                            | 14   |
| Climate Technologies               | 7                               | 4    | 10                            | 6    |
| Commercial & Residential Solutions | —                               | 3    | 1                             | 4    |
| Total                              | \$21                            | 44   | 34                            | 53   |



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Details of the change in the liability for rationalization during the six months ended March 31, 2015 follow (in millions):

|                                          | Sept 30, 2014 | Expense | Paid/Utilized | Mar 31, 2015 |
|------------------------------------------|---------------|---------|---------------|--------------|
| Severance and benefits                   | \$20          | 42      | 15            | 47           |
| Lease and other contract terminations    | 1             | 1       | 2             | —            |
| Fixed assets write-downs                 | —             | 2       | 2             | —            |
| Vacant facility and other shutdown costs | —             | 2       | 1             | 1            |
| Start-up and moving costs                | 1             | 6       | 6             | 1            |
| Total                                    | \$22          | 53      | 26            | 49           |

10. Summarized information about the Company's results of operations by business segment follows (in millions):

|                                    | Three Months Ended March 31, |         |          |        | Six Months Ended March 31, |         |          |        |
|------------------------------------|------------------------------|---------|----------|--------|----------------------------|---------|----------|--------|
|                                    | Sales                        |         | Earnings |        | Sales                      |         | Earnings |        |
|                                    | 2014                         | 2015    | 2014     | 2015   | 2014                       | 2015    | 2014     | 2015   |
| Process Management                 | \$2,108                      | 2,042   | 383      | 299    | 4,149                      | 4,141   | 756      | 691    |
| Industrial Automation              | 1,232                        | 1,034   | 187      | 144    | 2,381                      | 2,186   | 349      | 308    |
| Network Power                      | 1,171                        | 1,063   | 96       | 34     | 2,474                      | 2,182   | 179      | 113    |
| Climate Technologies               | 1,041                        | 982     | 186      | 170    | 1,827                      | 1,882   | 293      | 296    |
| Commercial & Residential Solutions | 460                          | 465     | 99       | 91     | 926                        | 945     | 199      | 194    |
|                                    | 6,012                        | 5,586   | 951      | 738    | 11,757                     | 11,336  | 1,776    | 1,602  |
| Differences in accounting methods  |                              |         | 60       | 53     |                            |         | 117      | 111    |
| Corporate and other                |                              |         | (147)    | ) 853  |                            |         | (332)    | ) 742  |
| Eliminations/Interest              | (200)                        | ) (186) | ) (47)   | ) (40) | ) (339)                    | ) (349) | ) (101)  | ) (86) |
| Total                              | \$5,812                      | 5,400   | 817      | 1,604  | 11,418                     | 10,987  | 1,460    | 2,369  |

Industrial Automation intersegment sales for the quarters ended March 31, 2015 and 2014 were \$167 million and \$182 million, respectively, and year-to-date \$312 million and \$298 million. The income in corporate and other for 2015 versus expense in 2014 primarily reflects the \$932 million gain on the divestiture of power transmission solutions (see Note 11). Additionally, the second quarter includes lower incentive stock compensation of \$19 million and the impact of a \$34 million loss from the Artesyn equity investment in 2014. The year-to-date change also reflects lower stock compensation of \$46 million and the Artesyn equity investment loss, plus favorable comparative impacts versus prior year from \$30 million of accelerated charitable contributions and purchase accounting inventory costs of \$21 million.

In the first quarter of 2015, the Company completed three acquisitions with combined annualized sales of approximately \$32 million in Process Management's measurement devices and systems and solutions businesses. Total cash paid for all businesses was \$145 million, net of cash acquired. The Company recognized goodwill of \$76 million (\$43 million of which is expected to be tax deductible) and other intangible assets of \$62 million, primarily customer relationships and intellectual property with a weighted-average life of approximately eleven years.

In connection with its longer-term strategy to divest selected slower-growth businesses, on January 30, 2015 the Company completed the previously announced sale of its mechanical power transmission solutions business to Regal Beloit Corporation for \$1.4 billion. The Company recognized a pretax gain from the transaction of \$932 million (\$528 million after-tax, \$0.77 per share). Assets and liabilities held-for-sale at the closing date were as follows: other current assets, \$181 million (accounts receivable, inventories, other); other assets, \$375 million (property, plant and equipment, goodwill, other noncurrent assets); accrued expenses, \$51 million (accounts payables, other current liabilities); and other liabilities, \$41 million. After-tax proceeds of approximately \$1 billion will be used for share repurchase. This business was previously reported in the Industrial Automation segment and had fiscal 2014 sales of \$605 million and earnings before income taxes of \$87 million. Power transmission solutions designs and manufactures market-leading couplings, bearings, conveying components and gearing and drive components, and provides supporting services and solutions.

The Company has begun evaluating strategic alternatives, including a potential sale, for its InterMetro business. InterMetro is a leading manufacturer and supplier of storage and transport products in the food service, commercial products and healthcare industries. This business had annual sales of \$284 million in 2014 and is reported in the Commercial & Residential Solutions segment.

In the first quarter of 2014, the Company completed the divestiture of a 51 percent controlling interest in Artesyn and in the fourth quarter of 2014, the Company sold its connectivity solutions business. Both of these businesses had been previously reported in the Network Power segment. Consolidated operating results for the six months ended March 31, 2014 included combined sales of \$183 million and a pretax loss of \$9 million (net loss, \$7 million) for these businesses.

12. As previously disclosed, on October 22, 2012, Invensys Systems, Inc. filed a patent infringement suit against the Company and its subsidiary, Micro Motion, Inc., in the Eastern District of Texas captioned Invensys Systems, Inc. v. Emerson Electric Co. and Micro Motion, Inc., USA. Micro Motion and Emerson also brought claims against Invensys for patent infringement. All claims and cross claims between Emerson, Micro Motion and Invensys in all pending related matters have now been resolved amicably between the companies.

## EMERSON ELECTRIC CO. AND SUBSIDIARIES

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Items 2 and 3.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

## OVERVIEW

Second quarter sales were \$5.4 billion, down 7 percent, and underlying sales were flat. Sales growth was affected by a slowdown in short-cycle industrial spending, specifically in energy-related markets due to low oil prices, significant strength of the U.S. dollar and divestitures. Net earnings common stockholders were \$973 million, up 78 percent, and diluted earnings per share were \$1.42, up 84 percent. These results include a gain of \$528 million, \$0.77 per share, from the power transmission solutions divestiture.

## RESULTS OF OPERATIONS

Following is an analysis of the Company's operating results for the second quarter ended March 31, 2015, compared with the second quarter ended March 31, 2014.

| Three Months Ended March 31<br>(dollars in millions, except per share amounts) | 2014    | 2015   | Change |    |
|--------------------------------------------------------------------------------|---------|--------|--------|----|
| Net sales                                                                      | \$5,812 | 5,400  | (7     | )% |
| Gross profit                                                                   | \$2,395 | 2,166  | (10    | )% |
| Percent of sales                                                               | 41.2    | % 40.1 | %      |    |
| SG&A                                                                           | \$1,394 | 1,318  |        |    |
| Percent of sales                                                               | 24.0    | % 24.4 | %      |    |
| Gain on sale of business                                                       | \$—     | 932    |        |    |
| Other deductions, net                                                          | \$137   | 136    |        |    |
| Interest expense, net                                                          | \$47    | 40     |        |    |
| Earnings before income taxes                                                   | \$817   | 1,604  | 96     | %  |
| Percent of sales                                                               | 14.1    | % 29.7 | %      |    |
| Net earnings common stockholders                                               | \$547   | 973    | 78     | %  |
| Percent of sales                                                               | 9.4     | % 18.0 | %      |    |
| Diluted earnings per share                                                     | \$0.77  | 1.42   | 84     | %  |

Net sales for the second quarter of 2015 were \$5,400 million, a decrease of \$412 million, or 7 percent compared with \$5,812 million in 2014. Underlying sales were essentially flat (down \$14 million), as foreign currency translation deducted 5 percent (\$275 million), divestitures deducted 2 percent (\$130 million) and acquisitions added \$7 million. Underlying sales decreased 3 percent in the U.S. and increased 2 percent internationally. Europe increased 2 percent, Asia was up 1 percent (China down 5 percent), Latin America was down 7 percent, Canada was up 13 percent and Middle East/Africa was up 8 percent. Sales decreased \$198 million in Industrial Automation, primarily reflecting the power transmission solutions divestiture, and decreased \$108 million in Network Power as underlying demand for telecommunications and data center infrastructure investment remained sluggish. Sales were down \$59 million in Climate Technologies as U.S. HVAC customers work through inventory pre-bought in anticipation of regulatory changes that went into effect January 1, 2015. Process Management sales decreased \$66 million as volume increases were offset by significant unfavorable currency translation.

Cost of sales for the second quarter of 2015 were \$3,234 million, a decrease of \$183 million compared to \$3,417 million in 2014, primarily due to the effect of foreign currency translation and the power transmission solutions divestiture. Gross profit margin of 40.1 percent decreased 1.1 percentage points compared to 41.2 percent in 2014 due

to unfavorable mix, the impact of the stronger dollar on operations and deleverage in certain businesses. Savings from cost reduction actions partially offset these items.

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Selling, general and administrative (SG&A) expenses of \$1,318 million decreased \$76 million compared with the prior year due to the impact of foreign currency translation, the power transmission solutions divestiture, a \$19 million decrease in incentive stock compensation and cost containment actions. SG&A as a percent of sales of 24.4 percent in 2015 increased 0.4 percentage points primarily due to deleverage in certain businesses, and the effect of higher costs related to investments for growth made in the prior year.

On January 30, 2015, the Company completed the sale of its power transmission solutions business and recorded a pretax gain of \$932 million (\$528 million after-tax, \$0.77 per share). See Note 11.

Other deductions, net were \$136 million in 2015, a decrease of \$1 million. See Note 8.

Pretax earnings of \$1,604 million increased \$787 million, or 96 percent due to the gain of \$932 million on the divestiture of power transmission solutions, which aided pretax earnings comparisons 114 percentage points. Earnings decreased \$84 million in Process Management, \$62 million in Network Power and \$43 million in Industrial Automation. See the following Business Segments discussion.

Income taxes were \$625 million for 2015 and \$263 million for 2014, resulting in effective tax rates of 39 percent and 32 percent, respectively. The 2015 effective tax rate includes a 6 percentage point impact from the power transmission solutions divestiture. The effective tax rate for full year 2015 is estimated at approximately 33 percent, including an approximate 2 percentage point unfavorable impact from the power transmission solutions divestiture.

Net earnings common stockholders in 2015 were \$973 million, up 78 percent, and earnings per share were \$1.42, up 84 percent. Excluding the divestiture gain, net earnings were \$445 million, down 19 percent, and earnings per share were \$0.65, down 16 percent. The divestiture gain of \$528 million and \$0.77 per share benefited net earnings and earnings per share comparisons by 97 percent and 100 percent, respectively. Earnings per share also benefited from purchases of common stock for treasury.

## BUSINESS SEGMENTS

Following is an analysis of operating results for the Company's business segments for the second quarter ended March 31, 2015, compared with the second quarter ended March 31, 2014. The Company defines segment earnings as earnings before interest and taxes.

### Process Management

| Three Months Ended March 31<br>(dollars in millions) | 2014    | 2015   | Change |
|------------------------------------------------------|---------|--------|--------|
| Sales                                                | \$2,108 | 2,042  | (3) %  |
| Earnings                                             | \$383   | 299    | (22) % |
| Margin                                               | 18.2    | % 14.7 | %      |

Process Management sales were \$2.0 billion in the second quarter, a decrease of \$66 million, or 3 percent. Underlying sales increased 2 percent (\$42 million) on volume growth while acquisitions added \$7 million. Growth was impeded as upstream oil and gas slowed considerably, particularly in North America. Foreign currency translation had a 5 percent (\$115 million) unfavorable impact. The systems and solutions business increased slightly while the final control and measurement devices businesses were down. Underlying sales decreased 3 percent in the U.S. and increased 7 percent in Europe and 6 percent in Asia. Latin America decreased 5 percent, and Canada increased 16 percent and Middle East/Africa increased 3 percent. Earnings decreased \$84 million and margin decreased 350 basis points due to unfavorable mix, the impact of a stronger dollar on operations and higher costs related to investments for growth made in the prior year. Results also include higher rationalization expense of \$17 million and other costs.

Uncertainty regarding oil prices has slowed the pace of business. Demand is expected to continue to be weak for the next twelve months, affecting both fiscal 2015 and 2016.

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Industrial Automation

Three Months Ended March 31  
(dollars in millions)

|          | 2014    | 2015   | Change |    |
|----------|---------|--------|--------|----|
| Sales    | \$1,232 | 1,034  | (16    | )% |
| Earnings | \$187   | 144    | (23    | )% |
| Margin   | 15.2    | % 13.9 | %      |    |

Industrial Automation sales were \$1.0 billion in the second quarter, a decrease of \$198 million, or 16 percent. Underlying sales were down 2 percent (\$21 million) on lower volume, reflecting weakness in short-cycle European demand, upstream oil and gas, and industrial spending in energy-related markets. The power transmission solutions divestiture deducted 8 percent (\$111 million) and foreign currency translation subtracted 6 percent (\$66 million). Sales decreased in the power generating alternators and motors and drives businesses, with Europe particularly weak. Electrical distribution, hermetic motors and fluid automation also decreased. Underlying sales were down 1 percent in the U.S., down 2 percent in Europe, and up 1 percent Asia. Sales were down 17 percent in Latin America, 1 percent in Canada and 13 percent in Middle East/Africa. Earnings decreased \$43 million and margin declined 130 basis points, partially due to the power transmission solutions divestiture, which reduced earnings \$21 million and contributed 40 basis points to the margin decline. Lower volume, deleverage and unfavorable mix also contributed to the decrease. Market conditions are expected to remain mixed in the near term, with industrial spending slow to recover from recent weakness. Upstream oil and gas will negatively impact orders in power generation alternators and electrical distribution.

Network Power

Three Months Ended March 31  
(dollars in millions)

|          | 2014    | 2015  | Change |    |
|----------|---------|-------|--------|----|
| Sales    | \$1,171 | 1,063 | (9     | )% |
| Earnings | \$96    | 34    | (65    | )% |
| Margin   | 8.2     | % 3.2 | %      |    |

Network Power sales were \$1.1 billion in the second quarter, a decrease of \$108 million, or 9 percent. Underlying sales were down 3 percent (\$34 million) on 2 percent lower volume and 1 percent lower price. Foreign currency translation deducted 5 percent (\$55 million) and a prior year divestiture subtracted 1 percent (\$19 million). The telecommunications power business decreased sharply on lower demand in all geographies as global telecommunications companies cut capital spending, particularly in the U.S. The data center business decreased moderately as growth in thermal management was more than offset by decreases in uninterruptible power supply products. Underlying sales decreased 9 percent in the U.S. and 5 percent in Asia (China down 6 percent), while Europe was up 4 percent. Latin America was up 7 percent, Middle East/Africa was up 19 percent and Canada was up 15 percent. Earnings decreased \$62 million and margin declined 5 percentage points, due to lower volume and deleverage, particularly in the telecommunications power business, lower pricing in Asia and unfavorable mix. Additionally, higher rationalization, unfavorable foreign currency transactions and litigation together contributed \$14 million to the decrease. Demand is expected to remain mixed in the second half of the year, with improving data center market conditions and continued weakness in telecommunications power capital spending.

Climate Technologies

Three Months Ended March 31  
(dollars in millions)

|       | 2014    | 2015 | Change |    |
|-------|---------|------|--------|----|
| Sales | \$1,041 | 982  | (6     | )% |

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|          |        |        |    |    |
|----------|--------|--------|----|----|
| Earnings | \$ 186 | 170    | (9 | )% |
| Margin   | 17.9   | % 17.3 | %  |    |

Climate Technologies sales were \$982 million in the second quarter, a decrease of \$59 million or 6 percent. Underlying sales decreased 3 percent (\$29 million) on lower volume and foreign currency translation deducted 3 percent (\$30 million). The global air conditioning business was down as U.S. customers work through inventory pre-

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bought in the first quarter in anticipation of regulatory changes that went into effect January 1, 2015. Global refrigeration decreased, reflecting softness in Europe, the U.S. and Asia. Temperature controls and sensors were down. Underlying sales decreased 6 percent in the U.S., increased 1 percent in Europe, and decreased 2 percent in Asia. Latin America was down 19 percent, Canada was up 18 percent and Middle East/Africa was up 35 percent. Earnings decreased \$16 million and margin declined 60 basis points primarily due to deleverage and unfavorable mix and foreign currency transactions. Warranty costs and rationalization expense were lower. The expectation is for modest underlying growth in the second half of the year as end user demand in HVAC and refrigeration remains favorable.

## Commercial &amp; Residential Solutions

| Three Months Ended March 31<br>(dollars in millions) | 2014  | 2015   | Change |    |
|------------------------------------------------------|-------|--------|--------|----|
| Sales                                                | \$460 | 465    | 1      | %  |
| Earnings                                             | \$99  | 91     | (8)    | )% |
| Margin                                               | 21.4  | % 19.4 | %      |    |

Commercial & Residential Solutions sales were \$465 million in the second quarter, an increase of \$5 million, or 1 percent. Underlying sales increased 3 percent (\$14 million) on higher volume while foreign currency translation deducted 2 percent (\$9 million). The sales increase was led by strong growth in residential storage, and modest growth in food waste disposers and wet/dry vacuums. Professional tools decreased moderately. Sales increased 5 percent in the U.S. and decreased 4 percent internationally. Earnings decreased \$8 million and margin decreased 200 basis points, reflecting business mix, higher rationalization expense of \$3 million and other costs. Materials cost containment and higher price partially offset the decline. Favorable conditions in U.S. construction markets are expected to continue in the near term, supporting the outlook for moderate growth in the second half of the year.

## RESULTS OF OPERATIONS

Following is an analysis of the Company's operating results for the six months ended March 31, 2015, compared with the six months ended March 31, 2014.

| Six Months Ended March 31<br>(dollars in millions, except per share amounts) | 2014     | 2015   | Change |    |
|------------------------------------------------------------------------------|----------|--------|--------|----|
| Net sales                                                                    | \$11,418 | 10,987 | (4)    | )% |
| Gross profit                                                                 | \$4,631  | 4,446  | (4)    | )% |
| Percent of sales                                                             | 40.6     | % 40.5 | %      |    |
| SG&A                                                                         | \$2,838  | 2,723  |        |    |
| Percent of sales                                                             | 24.9     | % 24.8 | %      |    |
| Gain on sale of business                                                     | \$—      | 932    |        |    |
| Other deductions, net                                                        | \$232    | 200    |        |    |
| Interest expense, net                                                        | \$101    | 86     |        |    |
| Earnings before income taxes                                                 | \$1,460  | 2,369  | 62     | %  |
| Percent of sales                                                             | 12.8     | % 21.6 | %      |    |
| Net earnings common stockholders                                             | \$1,009  | 1,498  | 48     | %  |
| Percent of sales                                                             | 8.8      | % 13.6 | %      |    |
| Diluted earnings per share                                                   | \$1.42   | 2.17   | 53     | %  |

Net sales for the first six months of 2015 were \$10,987 million, a decrease of \$431 million, or 4 percent compared with \$11,418 million in 2014. Underlying sales increased 3 percent (\$270 million) on volume increases, foreign currency translation deducted 4 percent (\$432 million) and divestitures subtracted 3 percent (\$282 million). Acquisitions added \$13 million. Underlying sales increased 2 percent in the U.S. and 3 percent internationally as Europe was up 1 percent, Asia was up 1 percent (China down 2 percent) and Latin America was up 3 percent. Middle East/Africa was up 4 percent and Canada was up 17 percent. Sales growth was led by Climate Technologies, which increased \$55 million, or 3 percent due to accelerated first quarter demand stemming from regulatory changes and Commercial &

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Residential Solutions, which increased \$19 million, or 2 percent. Sales for Network Power decreased \$292 million, or 12 percent, and Industrial Automation was down \$195 million, or 8 percent, both primarily due to divestitures and foreign currency translation. Process Management sales were essentially flat compared to 2014.

Cost of sales for 2015 were \$6,541 million, a decrease of \$246 million versus \$6,787 million in 2014, primarily due to the impact of foreign currency translation and divestitures, partially offset by higher costs associated with increased volume, including acquisitions. Gross profit margin of 40.5 percent decreased 0.1 percentage point compared to 40.6 percent in 2014 due largely to unfavorable mix and the impact of the stronger dollar on product costs, mostly offset by divestitures (0.3 percentage points), savings from cost reduction actions and the favorable comparative effect from prior year purchase accounting inventory expense of \$21 million.

SG&A expenses of \$2,723 million decreased \$115 million versus 2014 and SG&A as a percent of sales of 24.8 percent decreased 0.1 percent. These decreases are due to costs associated with increased volume and the effect of spending on growth investments in the prior year being more than offset by the impact of foreign currency translation and divestitures. Lower incentive stock compensation of \$46 million and the favorable comparative impact of \$30 million from accelerated charitable contributions in 2014 also contributed to the decrease.

Other deductions, net were \$200 million in 2015, a decrease of \$32 million, primarily due to the \$34 million loss from the Artesyn equity investment in 2014.

Pretax earnings of \$2,369 million increased \$909 million, or 62 percent. The increase was due to the gain of \$932 million on the divestiture of power transmission solutions, which aided pretax earnings comparisons 64 percentage points. Earnings decreased \$66 million in Network Power, \$65 million in Process Management and \$41 million in Industrial Automation. See Business Segments discussion that follows.

Income taxes were \$861 million for 2015 and \$429 million for 2014, resulting in effective tax rates of 36 percent and 29 percent, respectively. The 2015 effective tax rate includes a 5 percentage point unfavorable impact from the power transmission solutions divestiture. The 2014 effective tax rate benefited approximately 2 percentage points from certain items, including 1 percentage point each from the Artesyn divestiture and the disposal of an investment.

Net earnings common stockholders for 2015 were \$1,498 million, up 48 percent, compared to \$1,009 million in 2014 and earnings per share were \$2.17, up 53 percent, compared to \$1.42 in the prior year. Excluding the divestiture gain, net earnings were \$970 million, down 4 percent, and earnings per share were \$1.40, down 1 percent. The divestiture gain of \$528 million, \$0.77 per share, benefited net earnings and earnings per share comparisons by 52 percent and 54 percent, respectively.

## BUSINESS SEGMENTS

Following is an analysis of operating results for the Company's business segments for the six months ended March 31, 2015, compared with the six months ended March 31, 2014. The Company defines segment earnings as earnings before interest and taxes.

| Process Management<br>Six Months Ended March 31<br>(dollars in millions) | 2014    | 2015   | Change |    |
|--------------------------------------------------------------------------|---------|--------|--------|----|
| Sales                                                                    | \$4,149 | 4,141  | —      | %  |
| Earnings                                                                 | \$756   | 691    | (9)    | )% |
| Margin                                                                   | 18.2    | % 16.7 | %      |    |

Process Management sales were \$4.1 billion for the first six months of 2015, essentially flat (down \$8 million) compared with the prior year. Underlying sales increased 4 percent (\$167 million) on volume growth while foreign currency translation deducted 4 percent (\$188 million) and acquisitions added \$13 million. The systems and solutions business grew modestly, final control was up slightly and the measurement devices business was down. Underlying sales increased 2 percent in the U.S., 5 percent in Europe, and 3 percent in Asia with 1 percent growth in China. Sales were up 9 percent in Latin America, 1 percent in Middle East/Africa and 19 percent in Canada. Earnings decreased \$65 million and margin decreased 150 basis points due to unfavorable mix, the impact of a stronger dollar on operations, higher costs related to growth investments in the prior year, and higher rationalization of \$17 million.

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Industrial Automation

Six Months Ended March 31  
(dollars in millions)

|          | 2014    | 2015   | Change |
|----------|---------|--------|--------|
| Sales    | \$2,381 | 2,186  | (8)%   |
| Earnings | \$349   | 308    | (12)%  |
| Margin   | 14.7    | % 14.1 | %      |

Industrial Automation sales were \$2.2 billion for the first six months of 2015, a decrease of \$195 million or 8 percent. Underlying sales were essentially flat (up \$5 million), as foreign currency translation deducted 4 percent (\$101 million) and the power transmission solutions divestiture deducted 4 percent (\$99 million). The hermetic motors business was up moderately and materials joining increased slightly, while power generating alternators, motors and drives and fluid automation decreased. Underlying sales increased 5 percent in the U.S. and 2 percent in Asia, and decreased 6 percent in Europe. Sales were down 6 percent in Latin America, up 6 percent in Canada and down 12 percent in Middle East/Africa. Earnings decreased \$41 million and margin declined 60 basis points, partially due to the power transmission solutions divestiture, which reduced earnings \$17 million and contributed 20 basis points to the margin decline. Unfavorable mix and deleverage were partially offset by cost reduction actions and lower warranty.

Network Power

Six Months Ended March 31  
(dollars in millions)

|          | 2014    | 2015  | Change |
|----------|---------|-------|--------|
| Sales    | \$2,474 | 2,182 | (12)%  |
| Earnings | \$179   | 113   | (37)%  |
| Margin   | 7.2     | % 5.2 | %      |

Network Power sales were \$2.2 billion for the first six months of 2015, a decrease of \$292 million, or 12 percent, reflecting prior year divestitures, which subtracted 7 percent (\$183 million), and foreign currency translation which deducted 4 percent (\$88 million). Underlying sales were down 1 percent (\$21 million) on lower price. The data center business decreased slightly, as growth in thermal management and inbound power products and from a large European hyperscale project was offset by a decrease in uninterruptible power supply products. The telecommunications power business decreased sharply on lower demand in all geographies, particularly in the U.S. Underlying sales were down 5 percent in the U.S. and 3 percent in Asia, while Europe was up 8 percent. Sales were down 6 percent in Latin America and increased 5 percent in Middle East/Africa and 26 percent in Canada. Earnings decreased \$66 million and margin declined 2 percentage points, due to lower volume and deleverage, particularly in the telecommunications power business, lower pricing in Asia and unfavorable mix. Additionally, higher rationalization of \$4 million contributed to the decrease.

Climate Technologies

Six Months Ended March 31  
(dollars in millions)

|          | 2014    | 2015   | Change |
|----------|---------|--------|--------|
| Sales    | \$1,827 | 1,882  | 3%     |
| Earnings | \$293   | 296    | 1%     |
| Margin   | 16.0    | % 15.7 | %      |

Climate Technologies sales were \$1.9 billion for the first six months of 2015, an increase of \$55 million or 3 percent. Underlying sales increased 5 percent (\$97 million) on higher volume while foreign currency translation deducted 2 percent (\$42 million). The global air conditioning business was up on strong first quarter accelerated demand in the

U.S. residential market due to customers pre-buying ahead of regulatory changes. Global refrigeration was flat as strength in the U.S. and Asia was offset by weakness in Europe. The temperature sensors and controls businesses decreased. Overall, underlying sales were up 7 percent in the U.S., down 1 percent in Europe and flat in Asia (China down 7 percent). Sales increased 5 percent in Latin America, 34 percent in Middle East/Africa and 15 percent in Canada. Earnings increased \$3 million, reflecting higher volume and lower warranty costs. Margin decreased 30 basis

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points due to unfavorable mix and foreign currency transactions, partially offset by savings from cost reduction actions and lower rationalization expense.

## Commercial &amp; Residential Solutions

Six Months Ended March 31

(dollars in millions)

|          | 2014  | 2015   | Change |    |
|----------|-------|--------|--------|----|
| Sales    | \$926 | 945    | 2      | %  |
| Earnings | \$199 | 194    | (2     | )% |
| Margin   | 21.4  | % 20.5 | %      |    |

Commercial & Residential Solutions sales were \$0.9 billion for the first six months of 2015, an increase of \$19 million, or 2 percent. Underlying sales increased 3 percent (\$32 million) on higher volume while foreign currency translation deducted 1 percent (\$13 million). The sales increase was led by moderate growth in professional tools, and modest increases in the food waste disposers and wet/dry vacuums businesses. The storage businesses increased slightly. Sales increased 5 percent in the U.S. and were flat internationally. Earnings decreased \$5 million and margin declined 90 basis points, reflecting business mix, higher rationalization expense of \$3 million and other costs.

## FINANCIAL CONDITION

Key elements of the Company's financial condition for the six months ended March 31, 2015 as compared to the year ended September 30, 2014.

|                               | Sept 30, 2014 | Mar 31, 2015 |   |
|-------------------------------|---------------|--------------|---|
| Working capital (in millions) | \$2,413       | 1,574        |   |
| Current ratio                 | 1.3           | 1.2          |   |
| Total debt-to-total capital   | 37.3          | % 42.6       | % |
| Net debt-to-net capital       | 22.1          | % 27.4       | % |
| Interest coverage ratio       | 16.3          | X 24.3X      |   |

The Company's interest coverage ratio (earnings before income taxes plus interest expense, divided by interest expense) of 24.3X for the first six months of 2015 compares to 14.0X for the first six months of 2014. The significant increase is due to higher pretax earnings from the power transmission solutions divestiture gain and slightly lower interest expense.

Cash provided by operating activities of \$929 million decreased \$337 million, or 27 percent, compared with \$1,266 million in the prior year, driven by increased investment in working capital. Operating cash flow largely funded capital expenditures of \$359 million and dividends of \$647 million. Common stock purchases of \$1,351 million were supported by after-tax proceeds from the power transmission solutions divestiture. Principal payment of long-term debt were \$251 million and acquisitions were \$145 million. Free cash flow of \$570 million (operating cash flow of \$929 million less capital expenditures of \$359 million) was down \$299 million, due to the lower operating cash flow in 2015. Free cash flow was \$869 million in 2014 (operating cash flow of \$1,266 million less capital expenditures of \$397 million).

Emerson maintains a conservative financial structure which provides the strength and flexibility necessary to achieve its strategic objectives. The Company has been able to readily meet all its funding requirements and currently believes that sufficient funds will be available to meet the Company's needs in the foreseeable future through ongoing operations, existing resources, short- and long-term debt capacity or backup credit lines. These resources allow Emerson to reinvest in existing businesses, pursue strategic acquisitions and manage its capital structure on a short- and long-term basis.



**FISCAL 2015 OUTLOOK**

The global macroeconomic environment will continue to be challenging for the remainder of 2015, as strong headwinds from lower oil prices, strength of the U.S. dollar, and a broad slowdown in industrial spending, particularly in North America and China, will place downward pressure on underlying sales growth across most of the Company's businesses. Near-term profitability will be negatively affected by volume deleverage as a result of weaker underlying sales growth. The Company now expects 2015 net sales to decline (7) to (5) percent. Underlying sales growth is expected to be 0 to 2 percent, excluding a negative impact from currency translation of approximately (5) percent and a (2) percent deduction from divestitures. The execution focus will be on aligning costs with minimal, if any, underlying sales growth to improve margins and position the Company for increased profit growth in 2016. Therefore, restructuring will continue to be increased and is now expected to exceed \$140 million in the fiscal year. Reported earnings per share are expected to be \$4.17 to \$4.32, including a significant reduction from currency translation, the power transmission solutions divestiture gain of \$0.77 per share, and incremental restructuring costs of \$0.09 per share.

Statements in this report that are not strictly historical may be "forward-looking" statements, which involve risks and uncertainties, and Emerson undertakes no obligation to update any such statements to reflect later developments. These risks and uncertainties include economic and currency conditions, market demand, pricing, protection of intellectual property, and competitive and technological factors, among others, which are set forth in the "Risk Factors" of Part I, Item 1, and the "Safe Harbor Statement" of Exhibit 13, to the Company's Annual Report on Form 10-K for the year ended September 30, 2014, which are hereby incorporated by reference.

**Item 4. Controls and Procedures**

The Company maintains a system of disclosure controls and procedures designed to ensure that information required to be disclosed in its reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported in a timely manner. This system also is designed to ensure information is accumulated and communicated to management, including the Company's certifying officers, to allow timely decisions regarding required disclosure. Based on an evaluation performed, the certifying officers have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

Notwithstanding the foregoing, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company and its consolidated subsidiaries to report material information otherwise required to be set forth in the Company's reports.

There was no change in the Company's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## (c) Issuer Purchases of Equity Securities (shares in 000s).

| Period        | Total Number of<br>Shares<br>Purchased | Average Price<br>Paid Per Share | Total Number of Shares<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs | Maximum Number of<br>Shares that May Yet<br>Be Purchased Under<br>the Plans or Programs |
|---------------|----------------------------------------|---------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| January 2015  | 3,550                                  | \$59.36                         | 3,550                                                                                     | 37,289                                                                                  |
| February 2015 | 4,900                                  | \$58.07                         | 4,900                                                                                     | 32,389                                                                                  |
| March 2015    | 6,600                                  | \$56.62                         | 6,600                                                                                     | 25,789                                                                                  |
| Total         | 15,050                                 | \$57.74                         | 15,050                                                                                    | 25,789                                                                                  |

The Company's Board of Directors has authorized the purchase of up to 70 million shares of common stock under a May 2013 program.

## Item 5. Other Information

Prosecutors in Munich, Germany have commenced a criminal trial against a number of current and former Deutsche Bank executives and directors, including Emerson Director Clemens Boersig, related to their testimony in an earlier civil case involving Deutsche Bank. The proceedings do not relate to Emerson or Dr. Boersig's service on Emerson's Board.

## Item 6. Exhibits

## (a) Exhibits (Listed by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K).

10.1 Emerson Electric Co. 2015 Incentive Shares Plan, incorporated by reference to Emerson Electric Co. 2015 Proxy Statement dated December 12, 2014, File No. 1-278, Appendix B.

12 Ratio of Earnings to Fixed Charges.

31 Certifications pursuant to Exchange Act Rule 13a-14(a).

32 Certifications pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.

101 Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Earnings for the three and six months ended March 31, 2014 and 2015, (ii) Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2014 and 2015, (iii) Consolidated Balance Sheets at September 30, 2014 and March 31, 2015, (iv) Consolidated Statements of Cash Flows for the six months ended March 31, 2014 and 2015, and (v) Notes to Consolidated Financial Statements for the three and six months ended March 31, 2015.

EMERSON ELECTRIC CO. AND SUBSIDIARIES

FORM 10-Q

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMERSON ELECTRIC CO.

By /s/ Frank J. Dellaquila  
Frank J. Dellaquila  
Executive Vice President and Chief Financial Officer  
(on behalf of the registrant and as Chief Financial Officer)  
May 6, 2015

INDEX TO EXHIBITS

Exhibit No. Exhibit

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