

ACUITY BRANDS INC  
Form 10-K  
October 29, 2010

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

**Form 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended August 31, 2010.**
- 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 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 2400,  
Atlanta, Georgia**

*(Address of principal executive offices)*

**30309-7676**

*(Zip Code)*

**(404) 853-1400**

**(Registrant's telephone number, including area code)**

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (\$0.01 Par Value)	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer  Smaller Reporting Company

(Do not check if a smaller reporting company)

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

Based on the closing price of the Registrant's common stock of \$38.98 as quoted on the New York Stock Exchange on February 28, 2010, the aggregate market value of the voting stock held by nonaffiliates of the registrant was \$1,693,028,436.

The number of shares outstanding of the registrant's common stock, \$0.01 par value, was 42,807,894 shares as of October 28, 2010.

**DOCUMENTS INCORPORATED BY REFERENCE**

**Location in Form 10-K**

**Incorporated Document**

Part II, Item 5

Proxy Statement for 2010 Annual Meeting of  
Stockholders

Part III, Items 10, 11, 12, 13, and 14

Proxy Statement for 2010 Annual Meeting of  
Stockholders

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**ACUITY BRANDS, INC.**

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**PART I**

**Item 1. Business**

*(\$ in millions, except per-share data and as indicated)*

**Overview**

Acuity Brands, Inc. ( Acuity Brands ), the parent company of Acuity Brands Lighting, Inc. ( ABL ), and other subsidiaries (collectively referred to herein as the Company ), was incorporated in 2001 under the laws of the State of Delaware. The Company is one of the world's leading providers of lighting fixtures, control devices, components, systems and services for commercial and institutional, industrial, infrastructure, and residential applications for various markets throughout North America and select international markets.

The Company designs, produces, and distributes a full range of indoor and outdoor lighting and control systems for commercial and institutional, industrial, infrastructure, and residential applications. The Company manufactures or procures lighting products primarily in North America, Europe, and Asia. These products and related services are marketed under numerous brand names, including Lithonia Lighting<sup>®</sup>, Holophane<sup>®</sup>, Peerless<sup>®</sup>, Mark Architectural Lighting<sup>™</sup>, Hydrel<sup>®</sup>, American Electric Lighting<sup>®</sup>, Gotham<sup>®</sup>, Carandini<sup>®</sup>, Metal Optics<sup>®</sup>, Antique Street Lamps<sup>™</sup>, Tersen<sup>™</sup>, Synergy<sup>®</sup> Lighting Controls, Sensor Switch<sup>®</sup>, Lighting Control & Design<sup>™</sup>, and ROAM<sup>®</sup>. As of August 31, 2010, the Company manufactures products in 14 plants in North America and two plants in Europe.

Principal customers include electrical distributors, retail home improvement centers, national accounts, electric utilities, municipalities, and lighting showrooms located in North America and select international markets serving new construction, renovation, and facility maintenance applications. In North America, the Company's products and lighting systems are sold by independent sales agents and factory sales representatives who cover specific geographic areas and market segments. Products are delivered directly or through a network of distribution centers, regional warehouses, and commercial warehouses using both common carriers and a company-owned truck fleet. To serve international customers, the Company employs a sales force that utilizes distribution methods to meet specific individual customer or country requirements. In fiscal 2010, North American sales accounted for approximately 97% of net sales. See the *Geographic Information* footnote of the *Notes to Consolidated Financial Statements* for more information concerning the domestic and international net sales of the Company. The Company has one operating segment.

***Specialty Products Business Spin-off***

Acuity Brands completed the spin-off of its specialty products business (the Spin-off ), Zep Inc. ( Zep ), on October 31, 2007, by distributing all of the shares of Zep common stock, par value \$.01 per share, to the Company's stockholders of record as of October 17, 2007. The Company's stockholders received one Zep share, together with an associated preferred stock purchase right, for every two shares of the Company's common stock they owned. Stockholders received cash in lieu of fractional shares for amounts less than one full Zep share.

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

**Industry Overview**

Based on industry sources and government information, the Company estimates that in fiscal 2010 the size of the North American market for lighting fixtures, lighting controls, and related product and services that is served by the Company was approximately \$9.3 billion. This includes non-portable light fixtures (as defined by the National Electrical Manufacturers Association), poles for outdoor lighting products, emergency lighting fixtures, and energy management and architectural lighting control systems. This market estimate is based on a combination of external industry data and internal estimates, and excludes portable and vehicular lighting fixtures and related lighting



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components, such as lighting ballasts and lamps. The U.S. market, which represents approximately 82% of the North American market, is relatively fragmented. The Company estimates that the top four manufacturers (including Acuity Brands Lighting) participate in varying degrees in the total North American lighting fixture and controls market and have approximately half of the total market share. The remainder of the North American market is served by hundreds of other lighting manufacturers, including privately-owned and primarily smaller companies.

The Company operates in a highly competitive industry that is affected by volatility in a number of general business and economic factors, such as gross domestic product growth, employment levels, credit availability and commodity costs. The Company's primary market, non-residential construction, is sensitive to the volatility of these general economic factors. Based on industry sources, the Company estimates that new construction and additions in fiscal 2010 and 2009 accounted for approximately 74% and 78%, respectively, of the non-residential market while alterations, including renovation, accounted for approximately 26% and 22%, respectively. This mix can vary over time depending on economic conditions. As such, given the current economic environment, new construction in the non-residential market declined at a more rapid rate than alterations, which caused the change in mix. Construction spending on infrastructure projects such as highways, streets, and urban developments also has a material impact on the demand for the Company's infrastructure-focused products. Demand for the Company's lighting products sold through its retail channels are highly dependent on economic drivers, such as consumer spending and discretionary income, along with housing construction and home improvement spending.

A growing source of demand for the lighting industry is being attributed to the renovation and replacement of lighting systems in existing buildings. The potential U.S. market size is estimated to be significant (possibly greater than \$100 billion of installed base) due to square footage of existing non-residential buildings containing older, less efficient lighting systems.

The industry is influenced by the development of new lighting technologies, including light emitting diode (LED), electronic ballasts, embedded controls, and more effective optical designs; federal and state requirements for updated energy codes; incentives by federal, state, and local municipal authorities, as well as utility companies for using more energy-efficient fixtures and controls; and design technologies addressing sustainability. Traditional lighting manufacturers, including the Company, are offering product solutions based on these technologies utilizing internally developed, licensed, or acquired intellectual property. In addition, traditional lighting manufacturers are experiencing competition from new entrants with a focus on new technology-based lighting solutions.

Consolidation remains a key trend in the lighting equipment and controls industry, as well as the broader electrical industry leading to more extensive product offerings and increased globalization. Evidence of this trend are the recent combinations among electrical distributors, the 2008 acquisition by Koninklijke Philips Electronics N.V. of The Gentlyte Group Incorporated, and the Company's fiscal 2009 acquisitions of Sensor Switch, Inc. and Lighting Control & Design, Inc. and fiscal 2010 acquisition of Renaissance Lighting, Inc.

## **Products**

The Company produces a wide variety of lighting fixtures and controls systems and related products and services used in the following applications:

### ***Products and Services:***

*Commercial & Institutional* Includes stores, hotels, offices, schools, and hospitals, as well as other government and public buildings. Products that serve these applications include recessed, surface, and suspended lighting products, recessed downlighting, track lighting, and controls systems (occupancy sensors, photocontrols, relay panels, architectural dimming panels, and integrated controls systems), as well as special-use lighting products.

The outdoor areas associated with these applications are addressed by a variety of outdoor lighting products, such as area and flood lighting, decorative site lighting, and landscape lighting.

*Industrial* Includes primarily warehouses and manufacturing facilities, which utilize a variety of general purpose and special-use lighting products, as well as controls systems offerings.

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*Infrastructure* Includes highways, tunnels, airports, railway yards, and ports. Products that serve these applications include street, area, high-mast, off-set roadway, sign lighting, and integrated controls systems.

*Residential* Addressed with a combination of decorative fluorescent and downlighting products, as well as utilitarian fluorescent products.

*Services* Includes monitoring and controlling of lighting systems through machine-to-machine wireless network technology for outdoor applications, as well as energy audit and turn-key labor renovation services for indoor applications in the commercial, industrial, institutional, and infrastructure markets.

Sales of products accounted for approximately 99% of total consolidated net sales for Acuity Brands in fiscal 2010, 2009, and 2008.

## **Sales and Marketing**

*Sales.* The Company sells to customers in the North American market with separate sales forces targeted at delivering value added products and services to specific customer, channel, and geographic segments. As of August 31, 2010, these sales forces consist of approximately 300 company-employed salespeople and a network of approximately 200 independent sales agencies, each of which employs numerous salespeople. The Company also operates two separate European sales forces and an international sales group coordinating export sales outside of North America and Europe.

*Marketing.* The Company markets its products to end users in multiple channels through a broad spectrum of marketing and promotional vehicles, including direct customer contact, trade shows, on-site training, print advertising in industry publications, product brochures, and other literature, as well as the Internet and other electronic media. The Company owns and operates training and display facilities in numerous locations throughout North America and Europe designed to enhance the lighting knowledge of customers and industry professionals.

## **Customers**

Customers of the Company include electrical distributors, retail home improvement centers, national accounts, electric utilities, utility distributors, municipalities, contractors, lighting showrooms, and energy service companies. In addition, there are a variety of other professionals, which for any given project could represent a significant influence in the product specification process. These generally include contractors, engineers, architects, and lighting designers.

A single customer of the Company, The Home Depot, accounted for approximately 11% of net sales of the Company in fiscal 2010, 2009, and 2008. The loss of The Home Depot's business could temporarily adversely affect the Company's results of operations.

## **Manufacturing**

The Company operates 16 manufacturing facilities, including eight facilities in the United States, six facilities in Mexico, and two facilities in Europe. The Company utilizes a blend of internal and outsourced manufacturing processes and capabilities to fulfill a variety of customer needs in the most cost-effective manner. Critical processes, including assembly, reflector forming and anodizing and high-end glass production, are primarily performed at company-owned facilities, offering the ability to differentiate end-products through superior capabilities. Other critical components, such as lamps, LEDs, sockets, ballasts, and power supplies are purchased primarily from outside vendors. Investment is focused on improving capabilities, product quality, and manufacturing efficiency. Outsourcing

production and distribution to local suppliers factories and warehouses also provides an opportunity to lower Company-owned component inventory while maintaining high service levels through frequent just-in-time deliveries. The Company also utilizes contract manufacturing from U.S., Asian, and European sources for certain products and purchases certain finished goods, including poles, to complement its area lighting fixtures and a

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variety of residential and commercial lighting equipment. In fiscal 2010, net sales of finished product manufactured by others accounted for approximately 22% of the Company's net sales, while the Company's U.S. operations produced approximately 25%; Mexico produced approximately 50%; and Europe produced approximately 3%.

Management continues to focus on certain initiatives to make the Company more globally competitive. One of these initiatives relates to enhancing the Company's global supply chain and includes the consolidation of certain manufacturing facilities into more efficient locations. Since the beginning of fiscal 2002, the Company has closed 15 manufacturing facilities, including two separate facilities downsized in fiscal 2010 and 2009. These consolidation efforts reduced the total square footage used for manufacturing by approximately 39%.

## **Distribution**

Products are delivered directly or through a network of strategically located distribution centers, regional warehouses, and commercial warehouses in North America using both common carriers and a company-owned truck fleet. For international customers, distribution methods are adapted to meet individual customer or country requirements.

## **Research and Development**

Research and development ( R&D ) efforts are targeted toward the development of products with an ever-increasing performance-to-cost ratio and energy efficiency, while close relationships with lamp, ballast, LED, and power supply manufacturers are maintained to understand technology enhancements and incorporate them in the Company's fixture designs. For fiscal 2010, 2009, and 2008, research and development expense totaled \$28.0, \$20.8, and \$30.3, respectively. The increase in fiscal 2010 expense was due primarily to higher incentive compensation associated with R&D associates compared with fiscal 2009 amounts.

## **Competition**

The lighting equipment and controls market served by the Company is highly competitive, with some of the largest suppliers serving many of the same markets and competing for the same customers. Competition is based on numerous factors, including brand name recognition, price, product quality, product and lighting system design, energy efficiency, customer relationships, and service capabilities. The Company's primary competitors in the North American lighting fixture and controls market include Cooper Industries plc., Hubbell Incorporated, and Koninklijke Philips Electronics N.V. The Company estimates that the four largest manufacturers (including Acuity Brands Lighting), which participate in varying degrees in the total North American lighting fixture and controls market, have approximately half of the total market share. In addition to these primary competitors, the Company also competes with hundreds of smaller lighting manufacturers, numerous lighting controls manufacturers of varying size, and, to a lesser degree, large, diversified global electronics companies.

The market is competitive for lighting and lighting-related products and services and continues to evolve. Consolidation remains a key trend. Certain broader and more global electrical manufacturers may be able to obtain a competitive advantage over the Company by offering broader and more integrated electrical solutions utilizing electrical, lighting, and building automation products. In addition, there have been a growing number of new competitors offering solid-state (primarily LED) product solutions to compete with traditional lighting solutions.

## **Environmental Regulation**

The operations of the Company are subject to numerous comprehensive laws and regulations relating to the generation, storage, handling, transportation, and disposal of hazardous substances, as well as solid and hazardous wastes, and to the remediation of contaminated sites. In addition, permits and environmental controls are required for

certain of the Company's operations to limit air and water pollution, and these permits are subject to modification, renewal, and revocation by issuing authorities. On an ongoing basis, the Company allocates considerable resources, including investments in capital and operating costs relating to environmental compliance. Environmental laws and regulations have generally become stricter in recent years, and state and federal governments domestically and internationally are considering new laws and regulations governing raw material composition, air emissions, and energy-efficiency. The Company is not aware of any pending legislation or

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proposed regulation related to environmental issues that would have a material adverse effect on the Company. The cost of responding to future changes, however, may be substantial. See Item 3: *Legal Proceedings* for further discussion of environmental matters.

## **Raw Materials**

The products produced by the Company require certain raw materials, including certain grades of steel and aluminum, electrical components, plastics, and other petroleum-based materials and components. In fiscal 2010, the Company purchased approximately 119,000 tons of steel and aluminum. The Company estimates that less than 10% of purchased raw materials are petroleum-based. Additionally, the Company estimates that approximately 3.5 million gallons of diesel fuel was consumed in fiscal 2010 through the Company's distribution activities. The Company purchases most raw materials on the open market and relies on third parties for providing certain finished goods. Accordingly, the cost of products sold may be affected by changes in the market price of raw materials or the sourcing of finished goods.

The Company does not currently engage in or expect to engage in significant commodity hedging transactions for raw materials, though the Company has and will continue to commit to purchase certain materials for a period of up to 12 months. Significant increases in the prices of the Company's products due to increases in the cost of raw materials could have a negative effect on demand for products and on profitability. While the Company has generally been able to pass along these increases in cost in the form of higher selling prices for its products, there can be no assurance that future disruptions in either supply or price of these materials will not negatively affect future results. Decreases in the costs of raw materials generally are also passed along in the form of lower selling prices.

The Company constantly monitors and investigates alternative suppliers and materials based on numerous attributes including quality, service, and price. The Company's ongoing efforts to improve the cost effectiveness of its products and services may result in a reduction in the number of its suppliers. A reduction in the number of suppliers could cause increased risk associated with reliance on a limited number of suppliers for certain raw materials, component parts (such as lamps, LEDs, ballasts, and power supplies), and finished goods.

## **Backlog Orders**

The Company produces and stocks quantities of inventory at key distribution centers and warehouses throughout North America. The Company ships approximately 55% of sales orders during the month in which those orders are placed. Sales order backlogs, believed to be firm as of August 31, 2010 and 2009, were \$137.6 and \$137.0, respectively.

## **Patents, Licenses and Trademarks**

The Company owns or has licenses to use various domestic and foreign patents and trademarks related to its products, processes, and businesses. These intellectual property rights are important factors for its businesses. To protect these proprietary rights, the Company relies on copyright, patent, trade secret, and trademark laws. Despite these protections, unauthorized parties may attempt to infringe on the intellectual property of the Company. Management is not aware of any pending claims asserting that the Company does not have the right to use intellectual property that is material to the Company. While patents and patent applications in the aggregate are important to the competitive position of the Company, no single patent or patent application is individually material to the Company.

## **Seasonality and Cyclicity**

The Company's business exhibits some seasonality, with net sales being affected by the impact of weather and seasonal demand on construction and installation programs, particularly during the winter months, as well as the annual budget cycles of major customers. Because of these seasonal factors, the Company has experienced, and generally expects to experience, its highest sales in the last two quarters of each fiscal year.

A significant portion of net sales relates to customers in the new construction and renovation markets. The new construction market is cyclical in nature and subject to changes in general economic conditions. Unit sales volume



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has a major impact on the profitability of the Company. Economic downturns and the potential decline in key construction markets may have a material adverse effect on the net sales and operating income of the Company.

## **International Operations**

The Company manufactures and assembles products at numerous facilities, some of which are located outside the United States. Approximately 53% of the products sold by the Company are manufactured by the Company outside the United States.

Of the Company's total products sold, approximately 50% are produced at six facilities in Mexico. Most of these facilities are authorized to operate as Maquiladoras by the Ministry of Economy of Mexico. Maquiladora status allows the Company to import certain items from the United States into Mexico duty-free, provided that such items, after processing, are re-exported from Mexico within 18 months. Maquiladora status, which is renewed every year, is subject to various restrictions and requirements, including compliance with the terms of the Maquiladora program and other local regulations. The Company may be required to make additional investments in automated equipment to partially offset potential increases in labor and wage costs.

The Company's initiatives to become more globally competitive include streamlining its global supply chain by reducing the number of manufacturing facilities and enhancing the Company's worldwide procurement and sourcing capabilities. Management believes these initiatives will result in increased worldwide procurement and sourcing of certain raw materials, component parts, and finished goods. As a consequence, economic, political, military, social, or other events in a country where the Company manufactures, procures, or sources a significant amount of raw materials, component parts, or finished goods, could interfere with the Company's operations and negatively impact the Company's business.

For fiscal 2010, net sales outside the U.S. represented approximately 11% of total net sales. See the *Geographic Information* footnote of the *Notes to Consolidated Financial Statements* for additional information regarding the geographic distribution of net sales, operating profit, and long-lived assets.

## **Information Concerning Acuity Brands**

The Company makes its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K (and all amendments to these reports), together with all reports filed pursuant to Section 16 of the Securities Exchange Act of 1934 by the Company's officers, directors, and beneficial owners of 10% or more of the Company's common stock, available free of charge through the "SEC Filings" link on the Company's website, located at [www.acuitybrands.com](http://www.acuitybrands.com), as soon as reasonably practicable after they are filed with or furnished to the SEC. Information included on the Company's website is not incorporated by reference into this Annual Report on Form 10-K. The Company's reports are also available at the Securities and Exchange Commission's Public Reference Room at 100 F. Street, NE, Washington, DC 20549 or on their website at [www.sec.gov](http://www.sec.gov). You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Additionally, the Company has adopted a written Code of Ethics and Business Conduct that applies to all of the Company's directors, officers, and employees, including its principal executive officer and senior financial officers. The Code of Ethics and Business Conduct and the Company's Corporate Governance Guidelines are available free of charge through the "Corporate Governance" link on the Company's website. Additionally, the Statement of Responsibilities of Committees of the Board and the Statement of Rules and Procedures of Committees of the Board, which contain the charters for the Company's Audit Committee, Compensation Committee, and Governance Committee, and the rules and procedures relating thereto, are available free of charge through the "Corporate Governance" link on the Company's website. Each of the Code of Ethics and Business Conduct, the Corporate

Governance Guidelines, the Statement of Responsibilities of Committees of the Board, and the Statement of Rules and Procedures of Committees of the Board is available in print to any stockholder of the Company that requests such document by contacting the Company's Investor Relations department.

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**Employees**

Acuity Brands employs approximately 6,000 people, of whom approximately 3,200 are employed in the United States, 2,500 in Mexico, 50 in Canada, and 200 in other international locations, including Europe and the Asia/Pacific region. Union recognition and collective bargaining arrangements are in place, covering approximately 3,600 persons (including approximately 1,400 in the United States). The Company believes that it has a good relationship with both its unionized and non-unionized employees.

**Item 1a. Risk Factors**

This filing contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. A variety of risks and uncertainties could cause Acuity Brands' actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Statements" on page 36. These risks include, without limitation:

**Risks Related to the Business of Acuity Brands, Inc.**

*General business and economic conditions may affect demand for the Company's products and services, which could impact results from operations.*

The Company competes based on such factors as name recognition and reputation, service, product features, innovation, and price. In addition, the Company operates in a highly competitive environment that is influenced by a number of general business and economic factors, such as general economic vitality, employment levels, credit availability, interest rates and commodity costs. Declines in general economic activity may negatively impact new construction, and renovation projects, which in turn may impact demand for the Company's product and service offerings. The impact of these factors could adversely affect the Company's financial position, results from operations, and cash flows.

*Tight credit conditions could impair the ability of the Company and other industry parties to effectively access capital markets, which could negatively impact the Company's capital position and demand for the Company's products and services.*

Tight credit conditions could impair the Company's ability to effectively access capital. This could impair the Company's ability to refinance debt as it becomes due or to obtain additional credit, if needed. The inability to effectively access capital markets could adversely affect the Company's financial position, results from operations, and cash flows.

In addition, the impact of the tight credit conditions has and could continue to impair the ability of real estate developers, property owners, and contractors to effectively access capital markets or obtain reasonable costs of capital on borrowed funds, resulting in a decline in construction and renovation projects. The inability of these constituents to borrow money to fund construction and renovation projects reduces the demand for the Company's products and services and could adversely affect the Company's results from operations and cash flow. The lack of credit availability and the general economic conditions over the last two years have negatively impacted the Company's results from operations by reducing customer demand.

*Acuity Brands is heavily dependent on the strength of construction activity.*

Sales of lighting equipment depend significantly on the level of activity in new construction and renovations. Demand for non-residential construction and renovation is driven by many factors, including but not limited to economic

activity, employment levels, credit availability, interest rates, accessibility to financing, and trends in vacancy rates and rent values. Demand for new residential construction and remodeling is also affected by interest rates and credit availability, as well as the supply of existing homes, price appreciation, and household formation rates. Significant declines in either non-residential or residential construction activity could significantly impact the Company's results from operations and cash flow. Since early fiscal 2009, both the Company and the industry

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experienced declines in sales volumes resulting from weakness in both the non-residential and residential construction markets due to the weak economic environment.

***Acuity Brands results may be adversely affected by fluctuations in the cost or availability of raw materials, components, and purchased finished goods.***

The Company utilizes a variety of raw materials and components in its production process including steel, aluminum, lamps, LEDs, ballasts, power supplies, petroleum-based by-products, natural gas, and copper. Future increases in the costs of these items could adversely affect operating margins, as there can be no assurance that future raw material and component price increases will be successfully passed through to customers. The Company generally sources these goods from a number of suppliers and, therefore, is reasonably insulated from risks affecting any one supplier. However, there are a limited number of suppliers for certain components and certain purchased finished goods, and disruptions in supply for those items could negatively impact the Company's short-term performance. Profitability and volume could be negatively impacted by limitations inherent within the supply chain of certain of these component parts, including competitive, governmental, legal, natural disasters, and other events that could impact both supply and price. Since mid-fiscal 2010, the industry has experienced shortages in certain electronic components used in the manufacturing of ballasts and power supplies, resulting in delays in sourcing these vital components. A persistent lack of availability of these components could adversely impact shipments in future periods. Variability in cost and availability could adversely affect the Company's results from operations and cash flows.

***Acuity Brand's results may be adversely affected by the Company's inability to maintain pricing.***

Aggressive pricing actions by competitors may affect the Company's ability to achieve desired unit volume growth and profitability levels under its current pricing strategies. The Company may also decide to lower pricing to match the competition. Additionally, the Company may not be able to increase prices to cover rising costs of components and raw materials. Even if the Company were able to increase prices to cover costs, competitive pricing pressures may not allow the Company to pass on any more than the cost increases which could negatively impact gross margin percentages. Alternatively, if component and raw material costs were to decline, the marketplace may not allow the Company to hold prices at their current levels, which could negatively impact both net sales and gross margins.

***Acuity Brands may experience difficulties in the consolidation of manufacturing facilities which could impact the shipments to customers, product quality, and the ability to realize the expected savings from streamlining actions.***

During fiscal 2009, the Company continued its ongoing programs to streamline operations, including the consolidation of certain manufacturing facilities and the reduction of overhead costs. Upon completion of these actions, the Company realized annualized benefits of more than \$50.0. During fiscal 2010, the Company announced plans to relocate certain production and down-size two facilities, and, upon completion, the Company expects to realize \$10.0 in annualized benefits. The Company will gain from such activity only to the extent that it can effectively leverage assets, personnel, and operating processes in the transition of production between manufacturing facilities. Uncertainty is inherent within the facility consolidation process, and unforeseen circumstances could offset the anticipated benefits, disrupt service to customers, and impact product quality.

***Acuity Brands is subject to risks related to operations outside the United States.***

The Company has substantial activities outside of the United States, including sourcing of products, materials, and components. The Company's operations, as well as those of key vendors, are therefore subject to regulatory, economic, political, military, and other events in countries where these operations are located, particularly Mexico. In addition to the risks that are common to both the Company's domestic and international operations, the Company faces risks specifically related to its foreign operations, including but not limited to: foreign currency fluctuations; unstable

political, social, regulatory, economic, financial, and market conditions; potential for privatization and other confiscatory actions; trade restrictions and disruption; criminal activities; and unforeseen increases in tariffs and taxes. The Company continues to monitor conditions affecting its international locations. Some of these risks

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could have a material adverse effect on the Company's business, financial condition, results from operations, and cash flows in the future.

The Company is exposed to risks associated with fluctuations in foreign currency exchange rates against the U.S. dollar resulting from non-U.S. dollar denominated transactions, particularly in our international operations. Potential decreases in income could result from a strengthening or weakening in foreign exchange rates in relation to the U.S. dollar.

***Acuity Brands is subject to a broad range of environmental, health, and safety laws and regulations in the jurisdictions in which it operates, and the Company may be exposed to substantial environmental, health, and safety costs and liabilities.***

The Company is subject to a broad range of environmental, health, and safety laws and regulations in the jurisdictions in which the Company operates. These laws and regulations impose increasingly stringent environmental, health, and safety protection standards and permitting requirements regarding, among other things, air emissions, wastewater storage, treatment, and discharges, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination and working conditions for the Company's employees. Some environmental laws, such as Superfund, the Clean Water Act, and comparable laws in U.S. states and other jurisdictions world-wide, impose joint and several liability for the cost of environmental remediation, natural resource damages, third party claims, and other expenses, without regard to the fault or the legality of the original conduct, on those persons who contributed to the release of a hazardous substance into the environment. The Company may also be affected by future laws or regulations, including those imposed in response to energy, climate change, or similar concerns. These laws may impact the manufacture and distribution of the Company's products and place restrictions on the products the Company can sell in certain geographical locations.

The costs of complying with these laws and regulations, including participation in assessments and remediation of contaminated sites and installation of pollution control facilities, have been, and in the future could be, significant. In addition, these laws and regulations may also result in substantial environmental liabilities associated with divested assets, third party locations, and past activities. The Company has established reserves for environmental remediation activities and liabilities where appropriate. However, the cost of addressing environmental matters (including the timing of any charges related thereto) cannot be predicted with certainty, and these reserves may not ultimately be adequate, especially in light of potential changes in environmental conditions, changing interpretations of laws and regulations by regulators and courts, the discovery of previously unknown environmental conditions, the risk of governmental orders to carry out additional compliance on certain sites not initially included in remediation in progress, the Company's potential liability to remediate sites for which provisions have not previously been established, and the adoption of more stringent environmental laws. Such future developments could result in increased environmental costs and liabilities and could require significant capital and other ongoing expenditures, any of which could have a material adverse effect on the Company's financial condition or results. In addition, the presence of environmental contamination at the Company's properties could adversely affect its ability to sell a property, receive full value for a property, or use a property as collateral for a loan.

***Acuity Brands may develop unexpected legal contingencies or matters that exceed insurance coverage.***

The Company is subject to various claims, including legal claims arising in the normal course of business. The Company is insured up to specified limits for certain types of claims with a self-insurance retention of \$0.5 per occurrence, including product liability claims, and is fully self-insured for certain other types of claims, including environmental, product recall, commercial disputes, and patent infringement. The Company establishes reserves for legal claims when the costs associated with the claims become probable and can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the level of insurance coverage held by the

Company and/or the amounts reserved for such claims. In the event of unexpected future developments, it is possible that the ultimate resolutions of such matters, if unfavorable, could have a material adverse effect on the Company's results from operations, financial position, or cash flows. The Company's insurance coverage is negotiated on an annual basis, and insurance policies in the future may have coverage exclusions that could cause claim-related costs to rise.



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***Acuity Brands may pursue future growth through strategic acquisitions and alliances, which may not yield anticipated benefits.***

The Company has and may continue to seek to improve its business through strategic acquisitions and alliances. The Company will gain from such activity only to the extent that it can effectively leverage the assets, including personnel, technology and operating processes, of the acquired businesses and alliances. Uncertainty is inherent within the acquisition and alliance process, and unforeseen circumstances arising from recent and future acquisitions or alliances could offset their anticipated benefits. In addition, unanticipated events, negative revisions to valuation assumptions and estimates, and/or difficulties in attaining synergies, among other factors, could adversely affect the Company's ability to recover initial and subsequent investments, particularly those related to acquired goodwill and intangible assets. Any of these factors could adversely affect the Company's financial condition, results from operations, and cash flows.

***Technological developments and increased competition could affect the Company's operating profit margins and sales volume.***

The Company competes in an industry where technology and innovation play major roles in the competitive landscape. The Company is highly engaged in the investigation, development, and implementation of new technologies. Securing key partnerships and alliances as well as employee talent, including having access to technologies developed by others, and the obtaining of appropriate patents play a significant role in protecting the Company's intellectual property and development activities. Additionally, the continual development of new technologies (e.g., LED, OLED, lamp/ballast systems, lighting controls systems, etc.) by existing and new source suppliers including non-traditional competitors with significant resources looking for either direct market access or partnership with competing large manufacturers, coupled with significant associated exclusivity and/or patent activity, could adversely affect the Company's ability to sustain operating profit margin and desirable levels of sales volume. Consolidation remains a key trend. Certain broader and more global electrical manufacturers may be able to obtain a competitive advantage over the Company by offering broader and more integrated electrical solutions utilizing electrical, lighting, and building automation products.

***Acuity Brands may be unable to sustain significant customer and/or channel partner relationships.***

Relationships forged with customers, including The Home Depot which historically has represented slightly greater than 10% of the Company's total net sales, are directly impacted by the Company's ability to deliver high-quality products and services. The Company does not have a written contract obligating The Home Depot to purchase its products. The loss of or substantial decrease in the volume of purchases by The Home Depot would harm the Company's sales, profitability and cash flow. The Company also has relationships with channel partners such as electrical distributors and independent sale agencies. While the Company has experienced positive, and in most cases long-term, relationships with these channel partners, the loss of some number of these channel partners or a substantial decrease in the volume of purchases from a major channel partner or a group of channel partners could, at least in the short-term, adversely affect the Company's sales, profitability, and cash flows.

***If Acuity Brands' products are improperly designed, manufactured, packaged, or labeled, the Company may need to recall those items and could be the target of product liability claims if consumers are injured.***

The Company may need to recall products if they are improperly designed, manufactured, packaged, or labeled and does not maintain insurance for such events. The Company's quality control procedures relating to the raw materials, including packaging, that it receives from third-party suppliers, as well as the Company's quality control procedures relating to its products after those products are designed, manufactured, and packaged, may not be sufficient. The Company has previously initiated product recalls as a result of potentially faulty components, assembly, installation,

and packaging of its products, and widespread product recalls could result in significant losses due to the costs of a recall, the destruction of product inventory, and lost sales due to the unavailability of product for a period of time. The Company may also be liable if the use of any of its products causes injury, and could suffer losses from a significant product liability judgment against the Company. A significant product recall or product liability case could also result in adverse publicity, damage to the Company's reputation, and a loss of

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consumer confidence in its products, which could have a material adverse effect on the Company's business, financial results, and cash flows.

***Acuity Brands could be adversely affected by disruptions of its operations.***

The breakdown of equipment or other events, including labor disputes, pandemics or catastrophic events such as war or natural disasters, leading to production interruptions in the Company's or one or more of its suppliers' plants could have a material adverse effect on the Company's financial results and cash flows. Approximately 50% of the Company's sales of finished products are manufactured in Mexico, a country that is currently experiencing heightened civil unrest, which could also disrupt supply of products from these facilities. Further, because many of the Company's customers are, to varying degrees, dependent on planned deliveries from the Company's plants, those customers that have to reschedule their own production or delay opening a facility due to the Company's missed deliveries could pursue financial claims against the Company. The Company may incur costs to correct any of these problems, in addition to facing claims from customers. Further, the Company's reputation among actual and potential customers may be harmed and result in a loss of business. While the Company has developed business continuity plans to support responses to such events or disruptions and maintains insurance policies covering, among other things, physical damage and business interruptions, these policies may not cover all losses. The Company could incur uninsured losses and liabilities arising from such events, including damage to its reputation, loss of customers, and substantial losses in operational capacity, any of which could have a material adverse effect on its financial results and cash flows.

***Failure of a Company operating or information system or a compromise of security with respect to an operating or information system or portable electronic device could adversely affect the Company's results from operations and financial condition or the effectiveness of internal controls over operations and financial reporting.***

The Company is highly dependent on automated systems to record and process Company and customer transactions and certain other components of the Company's financial statements. The Company could experience a failure of one or more of these systems or could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system. The Company could also experience a compromise of its security due to technical system flaws, clerical, data input or record-keeping errors, or tampering or manipulation of those systems by employees or unauthorized third parties. Information security risks also exist with respect to the use of portable electronic devices, such as laptops and smartphones, which are particularly vulnerable to loss and theft. The Company may also be subject to disruptions of any of these systems arising from events that are wholly or partially beyond its control (for example, natural disasters, acts of terrorism, epidemics, computer viruses, and electrical/telecommunications outages). All of these risks are also applicable where the Company relies on outside vendors to provide services to it. Operating system failures, ineffective system implementation or disruptions, or the compromise of security with respect to operating systems or portable electronic devices could subject the Company to liability claims, harm the Company's reputation, interrupt the Company's operations, and adversely affect the Company's internal control over financial reporting, business, results from operations, financial condition or cash flow.

***The inability to attract and retain talented employees and/or a loss of key employees could adversely affect the effectiveness of the Company's operations.***

The Company relies upon the knowledge and experience of employees involved in functions throughout the organization that require technical expertise and knowledge of the industry. A loss of such employees could adversely impact the Company's ability to execute key operational functions and could adversely affect the Company's operations.

***The risks associated with the inability to effectively execute its strategies could adversely affect the Company's results from operations and financial condition.***

Various uncertainties and risks are associated with the implementation of a number of aspects of the Company's global business strategy, including but not limited to new product development, effective integration of acquisitions, and efforts to streamline operations. Those uncertainties and risks include, but are not limited to: diversion of management's attention; difficulty in retaining or attracting employees; negative impact on relationships with distributors and customers; obsolescence of current products and slow new product development;

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additional streamlining efforts; and unforeseen difficulties in the implementation of the management operating structure. Problems with strategy execution could offset anticipated benefits, disrupt service to customers, and impact product quality, and could adversely affect the Company's financial condition and results from operations.

**Risks Related to Ownership of Acuity Brands Common Stock**

*The market price and trading volume of the Company's shares may be volatile.*

The market price of the Company's common shares could fluctuate significantly for many reasons, including for reasons unrelated to the Company's specific performance, such as reports by industry analysts, investor perceptions, or negative announcements by customers, competitors or suppliers regarding their own performance, as well as general economic and industry conditions. For example, to the extent that other large companies within the Company's industry experience declines in their share price, the Company's share price may decline as well. In addition, when the market price of a company's shares drops significantly, shareholders could institute securities class action lawsuits against the company. A lawsuit against the Company could cause the Company to incur substantial costs and could divert the time and attention of the Company's management and other resources.

**Risks Related to the Spin-off of Zep Inc.**

*Failure of the distribution to qualify as a tax-free transaction could result in substantial liability.*

Acuity Brands has received a private letter ruling from the Internal Revenue Service ( IRS ) to the effect that, among other things, the Spin-off (including certain related transactions) qualifies as tax-free to Acuity Brands, Zep, and Acuity Brands' stockholders for United States federal income tax purposes under section 355 and related provisions of the Internal Revenue Code ( IRC ). Although a private letter ruling generally is binding on the IRS, if the factual assumptions or representations made in the private letter ruling request are untrue or incomplete in any material respect, then Acuity Brands will not be able to rely on the ruling. Moreover, the IRS will not rule on whether a distribution of shares satisfies certain requirements necessary to obtain tax-free treatment under section 355 of the IRC. Rather, the private letter ruling is based upon representations by Acuity Brands that those requirements have been satisfied, and any inaccuracy in those representations could invalidate the ruling.