MICROVISION INC
Form 10-K/A
April 02, 2007

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

FORM 10-K/A
(Amendment No. 1)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2006

[ ] 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 0-21221

Microvision, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware	**91-1600822**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

6222 185th Ave NE
Redmond, Washington 98052

(Address of Principal Executive Offices including Zip Code)

(425) 936-6847

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value	NASDAQ Global Market
Warrants, exercisable for Common Stock, $.001 par value	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Exchange Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Act. Yes

o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes

o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

x No o

Indicate by check mark 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.

x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b of the Act). Yes

o No x

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2006 was approximately $71.8 million (based on the closing price for the registrant's Common Stock on the NASDAQ Global Market of $1.93 per share).

The number of shares of the registrant's Common Stock outstanding as of March 1, 2007 was 43,193,000.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the Registrant's Annual Meeting of Shareholders to be held on June 13, 2007 are incorporated herein by reference into Part III of this report.

Amendment No. 1

Explanatory Note

As required by Rule 3-09(b) of Regulation S-X, Microvision, Inc. (the "Company") is filing this Form 10-K/A to amend Item 15, Exhibits and Financial Statement Schedules, to include the audited financial statements of Lumera Corporation as of December 31, 2005 and December 31, 2004 and for the years ended December 31, 2005 and December 31, 2004. As of December 31, 2005, the Company had a 28% equity interest in Lumera Corporation. Item 15 is also being amended to include reference to the Lumera Corporation financial statements, financial statement schedule and the related report of the entity's independent registered public accounting firm. In accordance with Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, the text of the amended item (Item 15) is set forth in its entirety in the attached pages hereto.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of the report

1. Financial Statements

Microvision Financial Statements

Consolidated Balance Sheets as of December 31, 2006 and 2005

Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Mandatorily Redeemable Convertible Preferred Stock and Shareholders' Equity (Deficit) for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Comprehensive Loss for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

Notes to Consolidated Financial Statements

Valuation and Qualified Accounts and Reserves for the years ended December 31, 2006, 2005 and 2004

Lumera Financial Statements

Balance Sheets as of December 31, 2005 and 2004

Statements of Operations for the years ended December 31, 2005 and 2004

Statements of Mandatorily Redeemable Convertible Preferred Stock and Shareholders' Equity (Deficit) for the years ended December 31, 2005 and 2004

Statements of Comprehensive Loss for the years ended December 31, 2005 and 2004

Statements of Cash Flows for the years ended December 31, 2005 and 2004

Notes to Financial Statements

Valuation and Qualifying Accounts and Reserves for the years ended December 31, 2005 and 2004

2. None

(b) Exhibits

3.1	Certificate of Incorporation of Microvision, Inc., as amended. [22]
3.2	Bylaws of Microvision, Inc. [2]
4.1	Form of Specimen Stock Certificate for Common Stock.[2]
4.2	Form of Warrant issued on July 22, 2002.[7]
4.3	Form of Warrant Agreement dated March 5, 2003.[6]
4.4	Registration Rights Agreement dated as of September 9, 2004 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC. [10]
4.5	Warrant No. 76 to Purchase Common Stock of Microvision, Inc. issued September 10, 2004 to Satellite Strategic Finance Associates, LLC. [10]
4.6	Registration Rights Agreement executed in connection with the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [11]
4.7	Form of Warrant issued under the Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [11]
4.8	Form of Amended and Restated Note issued as of March 11, 2005 under the Master Amendment Agreement dated July 25, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto.[14]
4.9	Form of Warrant issued as of July 25, 2005 under the Master Amendment Agreement dated as of July 25, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. [14]
4.10	Registration Rights Agreement dated as of August 8, 2005 by and between Microvision, Inc., Satellite Strategic Finance Associates, LLC and Satellite Strategic Finance Partners, Ltd. [16]

4.11	Warrant No. 86 to Purchase Common Stock of Microvision, Inc. issued August 9, 2005 to Satellite Strategic Finance Partners, Ltd. (16)
4.12	Warrant No. 87 to Purchase Common Stock of Microvision, Inc. issued August 9, 2005 to Satellite Strategic Finance Associates, LLC. (16)
4.13	Registration Rights Agreement dated as of August 31, 2005 by and between Microvision, Inc. and Omicron Master Trust. (17)
4.14	Warrant No. 88 to Purchase Common Stock of Microvision, Inc. issued August 31, 2005 to Omicron Master Trust (17)
4.15	Registration Rights Agreement executed in connection with the Securities Purchase Agreement dated as of November 30, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (19)
4.16	Form of Note issued as of December 1, 2005 under the Securities and Purchase Agreement dated as of November 30, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto.(18)
4.17	Form of Warrant issued under the Securities Purchase Agreement dated as of November 30, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (18)
4.18	Form of Amended and Restated Pledge and Security Agreement executed in connection with the Securities Purchase Agreement dated as of November 30, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (18)
4.19	Registration Rights Agreement dated as of May 3, 2006 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC.(20)
4.20	Form of Warrant Agreement dated June 5, 2006 by and between Microvision, Inc. and American Stock Transfer & Trust Company.(21)
4.21	Form of Underwriter's Warrant Agreement dated June 5, 2006 by and between Microvision, Inc. and MDB Capital Group, LLC.(21)
4.22	Form of Underwriter's Warrant to Acquire Warrants Agreement dated June 5, 2006 by and between Microvision, Inc. and MDB Capital Group, LLC.(21)
10.1	

	Assignment of License and Other Rights between The University of Washington and the Washington Technology Center and the H. Group, dated July 25, 1993.(1)
10.2	Project II Research Agreement between The University of Washington and the Washington Technology Center and Microvision, Inc., dated October 28, 1993.(1)+
10.3	Exclusive License Agreement between The University of Washington and Microvision, Inc., dated October 28, 1993.(1)+
10.4	Exclusive License Agreement between the University of Washington and Microvision, Inc. dated March 3, 1994.(6)
10.5	2006 Microvision, Inc. Incentive Plan.
10.6	Independent Director Stock Option Plan, as amended.(5)*
10.7	Form of Common Stock Purchase Warrant issued to Avram Miller and Jacqueline Brandwynne dated August 10, 2000.(3)
10.8	Executive Loan Plan and Related Form of Note.(4)*
10.9	Form of the Option Agreement for options granted outside of the Plans.(8)
10.10	Securities Purchase Agreement dated as of September 9, 2004 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC. (10)
10.11	License and Development Agreement dated as of December 30, 2004 by and between Microvision, Inc. and Ethicon Endo-Surgery, Inc.(12)+
10.12	Securities Purchase Agreement dated as of March 11, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (11)
10.13	Employment Agreement between Microvision, Inc. and Alexander Y. Tokman dated July 18, 2005.(13)
10.14	Master Amendment Agreement dated July 25, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto.(14)
10.15	Lease Agreement between CarrAmerica Reality Operating Partnership, L.P. and Microvision, Inc., dated July 15, 2005.(15)
10.16	Securities Purchase Agreement dated as of August 8, 2005 by and between Microvision, Inc., Satellite Strategic Finance Associates, LLC and Satellite Strategic Finance Partners, Ltd.

	(16)
10.17	Conversion and Modification Agreement dated as of August 8, 2005 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC. (16)
10.18	Securities Purchase Agreement dated as of August 31, 2005 by and between Microvision, Inc. and Omicron Master Trust. (17)
10.19	Securities Purchase Agreement dated as of November 30, 2005 by and among Microvision, Inc. and the investors listed on the Schedule of Buyers thereto. (19)
10.20	Conversion Agreement dated as of May 3, 2006 by and between Microvision, Inc. and Satellite Strategic Finance Associates, LLC.(20)
10.21	Microvision, Inc. 2006 Incentive Plan (22)
23.1	Consent of Independent Registered Public Accounting Firm, as previously filed.
23.2	Consent of Independent Registered Public Accounting Firm, filed herewith.
31.1	Principal Executive Officer certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Principal Executive Officer certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18 United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350, Chapter 63 of Title 18 United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to the Company's Form SB-2 Registration Statement, Registration No. 333-05276-LA.

(2) Incorporated by reference to the Company's Post-Effective Amendment to Form S-3 Registration Statement, Registration No. 333-102244.

(3) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 2000, available at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 under the Company's Commission File Number, 0-21221.

(4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, available at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 under the Company's Commission File Number, 0-21221.

(5) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2002.

(6) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 5, 2003.

(7) Incorporated by reference to the Company's Current Report on Form 8-K filed on July 23, 2002.

(8) Incorporated by reference to the Company's Schedule TO filed on November 1, 2002.

(9) Incorporated by reference to the Company's Form 10-QSB for the quarterly period ended September 30, 1998, available at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 under the Company's Commission File Number, 0-21221.

(10) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 10, 2004.

(11) Incorporated by reference to the Company's Current Report on Form 8-K filed on March 14, 2005.

(12) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

(13) Incorporated by reference to the Company's Current Report on Form 8-K filed on July 7, 2005.

(14) Incorporated by reference to the Company's Current Report on Form 8-K filed on July 29, 2005.

(15) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 30, 2005.

(16) Incorporated by reference to the Company's Current Report on Form 8-K filed on August 10, 2005.

(17) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 2, 2005.

(18) Incorporated by reference to the Company's Current Report on Form 8-K filed on December 1, 2005.

(19) Incorporated by reference to the Company's Current Report on Form 8-K\A filed on December 2, 2005.

(20) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 5, 2006.

(21) Incorporated by reference to the Company's Current Report on Form 8-K filed on May 31, 2006.

(22) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

+ Subject to confidential treatment.

* Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(b) of this Report.

(c) Lumera financial statements

LUMERA CORPORATION

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Board of Directors and Shareholders of
Lumera Corporation:

In our opinion, the financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Lumera Corporation at December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Prior to July 28, 2004, the Company was a subsidiary of Microvision, Inc. As discussed in Note 3, the Company had extensive transactions and relationships with that entity for each of the two years ended December 31, 2005

/s/ PRICEWATERHOUSECOOPERS LLP

Seattle, Washington
March 16, 2006

LUMERA CORPORATION

BALANCE SHEETS

	December 31, 2005	December 31, 2004
Assets		
Current Assets		
Cash and cash equivalents	$ 4,885,000	$ 3,505,000
Investment securities, available-for-sale, current	16,871,000	15,460,000
Accounts receivable	-	32,000
Costs and estimated earnings in excess of billings on uncompleted contracts	77,000	3,000
Other current assets	551,000	623,000
Total current assets	22,384,000	19,623,000
Investment securities, available-for-sale, long-term	-	11,216,000
Property and equipment, net	1,276,000	2,047,000
Other assets	46,000	-
TOTAL ASSETS	$ 23,706,000	$ 32,886,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITES		
Accounts payable	$ 493,000	$ 416,000
Current portion of research liability	-	101,000
Accrued liabilities	1,059,000	976,000
Total current liabilities	1,552,000	1,493,000
Total liabilities	1,552,000	1,493,000
COMMITMENTS AND CONTINGENCIES (Note 10)	-	-
SHAREHOLDERS' EQUITY		
Common stock, $0.001 par value, 120,000,000 shares authorized; 16,748,116 shares issued and outstanding at December 31, 2005, and 16,546,430 shares issued and outstanding at December 31, 2004	17,000	16,000
Additional Paid-in Capital	71,070,000	70,435,000
Deferred stock-based compensation	(215,000)	(666,000)
Accumulated other comprehensive loss	(18,000)	(145,000)
Accumulated deficit	(48,700,000)	(38,247,000)
Total shareholders' equity	22,154,000	31,393,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 23,706,000	$ 32,886,000

The accompanying notes are an integral part of these financial statements.

LUMERA CORPORATION

STATEMENTS OF OPERATIONS

	Year ended December 31,	
	2005	2004
Revenue	$ 1,509,000	$ 989,000
Cost of revenue	922,000	651,000
GROSS PROFIT	587,000	338,000
Research and development expense	6,540,000	4,561,000
Marketing, general and administrative expense	5,155,000	4,588,000
Total operating expenses	11,695,000	9,149,000
Loss from operations	(11,108,000)	(8,811,000)
Interest income	655,000	237,000
Interest expense	-	(349,000)
Net loss	(10,453,000)	(8,923,000)
Deemed dividend upon issuance of mandatorily redeemable convertible preferred stock	-	(500,000)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (10,453,000)	$ (9,423,000)
NET LOSS PER SHARE-BASIC AND DILUTED	$ (0.63)	$ (0.89)
WEIGHTED-AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	16,607,653	10,613,606

The accompanying notes are an integral part of these financial statements.

LUMERA CORPORATION

STATEMENTS OF CHANGES IN MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND
SHAREHOLDERS' EQUITY (DEFICIT)

Mandatorily Redeemable Convertible Preferred Stock	Common Stock	Paid-in Capital	Common Stock - A	Common Stock - B	Deferred Stock Compensation

Accumulated Other Comprehensive Income

Accumulated Deficit

Total Shareholders' Equity (Deficit)

Activity

Shares

$

Shares

$

$

Shares

$

Shares

$

$

$

$

$

Balance at December 31, 2003

3,735,000

27,206,000

802,414

3,361,000

5,370,000

105,000

(31,000

)

—

(29,324,000

)

(25,889,000

)

Issuance of mandatorily redeemable convertible preferred stock and related beneficial conversion feature

250,000

500,000

500,000

Deemed dividend related to beneficial conversion feature

500,000

(500,000

)

(500,000

)

Issuance of Common Stock, net of offering costs of $1,995,000

6,000,000

$

6,000

$

36,730,000

36,736,000

Conversion of mandatorily redeemable convertible preferred stock and Common B to Common Stock

(3,985,000

)

(27,706,000

)

10,484,745

10,000

31,162,000

(802,414

)

(3,361,000

)

(5,370,000
)

(105,000
)

27,706,000

Deferred Compensation related to options issued

2,032,000

(2,032,000
)

—

Issuance of options for services

571,000

571,000

Deemed dividend to Microvision related to options issued to Microvision employee

(272,000
)

(272,000
)

Value of warrants issued in connction with convertible notes

301,000

301,000

Reversal of deferred compensation expense for cancelled options

(112,000
)

112,000

0

Exercise of Warrants

38,935

—

Exercises of options

22,750

23,000

23,000

Amortization of deferred compensation

1,285,000

1,285,000

Other comprehensive income

—

(145,000
)

(145,000
)

Net Loss

(8,923,000
)

(8,923,000
)

Balance at December 31, 2004

—

—

16,546,430

16,000

70,435,000

—

—

—

—

(666,000
)

(145,000
)

(38,247,000
)

31,393,000

Issuance of options for services

236,000

236,000

Reversal of deferred compensation expense for cancelled options

(37,000
)

37,000

0

Exercises of options

201,686

1,000

436,000

437,000

Amortization of deferred compensation

414,000

414,000

Other comprehensive income

—

127,000

127,000

Net Loss

(10,453,000
)

(10,453,000
)
Balance at December 31, 2005

—

$

—

16,748,116

$

17,000

$

71,070,000

—

$

—

—

$

	—
$	**(215,000)**
$	**(18,000)**
$	**(48,700,000)**
$	**22,154,000**

The accompanying notes are an integral part of these financial statements.

LUMERA CORPORATION

STATEMENTS OF COMPREHENSIVE LOSS

	Year ended December 31,	
	2005	2004
Net loss	$ (10,453,000)	$ (8,923,000)
Other comprehensive income (loss) -		
Unrealized gain (loss) on investment securities, available-for-sale:		
Unrealized holding gains (losses) arising during period	127,000	(145,000)
Net unrealized gain (loss)	127,000	(145,000)
Comprehensive loss	$ (10,326,000)	$ (9,068,000)

The accompanying notes are an integral part of these financial statements.

LUMERA CORPORATION

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2005	2004
Cash flows from operating activities		
Net loss	$ (10,453,000)	$ (8,923,000)
Adjustments to reconcile net loss to		
net cash used in operations		
Depreciation	1,297,000	1,198,000
Noncash expenses related to issuance of stock,		
options and amortization of deferred compensation	469,000	1,985,000
Amortization on investments	254,000	
Interest on Notes Payable	-	301,000
Change in		
Accounts receivable	32,000	119,000
Costs and estimated earnings in excess of billings		
on uncompleted contracts	(74,000)	163,000
Other current assets	72,000	(568,000)
Other assets	(46,000)	100,000
Accounts payable	77,000	29,000
Payable to related party	-	(42,000)
Accrued liabilities	264,000	142,000
Research liability	(101,000)	(1,847,000)
Net cash used in operating activities	(8,209,000)	(7,343,000)
Cash flows from investing activities		
Purchases of investment securities	(16,122,000)	(29,821,000)
Maturities of investment securities	25,800,000	3,000,000
Purchases of property and equipment	(526,000)	(378,000)
Net cash provided by (used in) investing activities	9,152,000	(27,199,000)
Cash flows from financing activities:		
Proceeds from issuance of convertible notes	-	2,300,000
Principal payments on convertible notes	-	(2,300,000)
Net proceeds from issuance of common stock	-	36,964,000
Net proceeds from the exercise of stock options	437,000	23,000
Redeemable convertible preferred stock	-	500,000
Net cash provided by financing activities	437,000	37,487,000
Net increase in cash and cash equivalents	1,380,000	2,945,000
Cash and cash equivalents at beginning of period	3,505,000	560,000
Cash and cash equivalents at end of period	$ 4,885,000	$ 3,505,000
Value assigned to warrants issued in connection with convertible note	$ -	$ 301,000

Unrealized gain (loss) in investment securities, available-for-sale	$ 127,000	$ (145,000)
Accrued offering costs included in accounts payable	$ -	$ 228,000
Accrued liability for non-cash stock compensation	$ 84,000	$ 266,000
Interest Paid	$ -	$ 44,000
Deemed dividend upon issuance of options to Microvision Employee	$ -	$ 272,000

The accompanying notes are an integral part of these financial statements.

LUMERA CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Lumera Corporation (the "Company" or "Lumera") was incorporated in Washington State in early 2000 and reincorporated in Delaware in 2004, and was established to develop, manufacture and market devices using proprietary polymer materials. Until December 31, 2003, we were considered to be in the development stage. In early 2004, we commercialized the devices for potential wireless networking and optical networking applications and had largely completed financial planning, establishing sources of supply, acquiring plant and equipment and recruiting personnel. Therefore, we were considered to have exited the development stage in 2004. On July 28, 2004 when we completed its initial public offering ("IPO") of 6.0 million shares of common stock at an offering price of $6.95 per share, raising proceeds of $38.7 million before expenses. We were a majority owned subsidiary of Microvision, Inc. ("Microvision") until our IPO (see Note 3).

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We have identified revenue recognition and accounting for research payments under the University of Washington agreements as areas where significant estimates and assumptions have been made in preparing the financial statements. We also evaluate the requirement for allowances for uncollectible receivables, and the valuation allowances for deferred income tax assets.

Cash and Cash Equivalents

- We consider all highly liquid investment securities with remaining maturities, at the date of purchase, of three months or less to be cash equivalents. Management determines the appropriate classification of investment securities at the time of purchase and evaluates such designation as of each balance sheet date. We have classified its entire investment portfolio as available-for-sale. Available-for-sale securities are stated at fair value with unrealized gains and losses included in shareholders equity as a component of other comprehensive income (loss), unless the loss is deemed to be other-than-temporary, in which case it is recognized immediately as an expense. We estimate the fair value of our investment securities using readily available market information. Dividend and interest income are recognized when earned. Realized gains and losses are included in interest income or expense. The cost of securities is based on the specific identification method.

Concentration of Credit Risk

- Financial instruments that potentially subject us to concentrations of credit risk are primarily cash and cash equivalents and investments. We have a cash investment policy that generally restricts investments to ensure preservation of principal and maintenance of liquidity. We typically do not require collateral from our customers. We make a provision for doubtful accounts when required. To date, we have not experienced any bad debts.

Revenue Recognition

- Revenue has primarily been generated from research and development cost reimbursement contracts for the United States government. Revenue on such contracts is recorded using the percentage-of-completion method measured on a cost-incurred basis. Changes in contract performance, contract conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Profit incentives are included in revenue when realization is assured.

Losses, if any, are recognized in full as soon as identified. Losses occur when the estimated direct and indirect costs to complete the contract exceed the unrecognized revenue on the contract. We evaluate the reserve for contract losses on a contract-by-contract basis. No losses have been incurred on any contracts to date.

The following table summarizes our contract revenue activity from our inception through December 31, 2005:

	Wideband polymer modulator		Polymer-based linear modulator		Electro-optic organic polymer		Polymer-based milimeter wave detection		Other	
	Award	Revenue	Award	Revenue	Award	Revenue	Award	Revenue	Award	Revenue
2001	$ 1,623,000	$ 821,000								
2002	1,031,000	885,000			$149,000	$ 61,000				
2003	950,000	1,118,000	$ 497,000	$ 95,000	400,000	488,000			$ 24,000	$ 24,000
2004	1,114,000	780,000		192,000						
2005	1,000,000	1,161,000	-	210,000	-	-	$ 411,000	$ 41,000	21,000	21,000
	$ 5,718,000	$4,765,000	$ 497,000	$497,000	$549,000	$ 549,000	$ 411,000	$ 41,000	$ 45,000	$ 45,000

All of our current and prior contracts with the government have been or are cost plus fixed fee type contracts. Under the terms of a cost plus fixed fee contract, the United States government pays us for actual direct and indirect costs incurred in performing the contracted services. We are under no obligation to spend more than the contract value to complete the contracted services. In addition, completion of the contracted services is generally on a best efforts basis. If the services are not completed, the government has the option to negotiate a follow-on contract to complete the services or to not pursue the services further with us. Contract deliveries consist of monthly financial reports, periodic technical reports and any devices if they have been successfully fabricated. There are no contractual provisions for repayments of any amounts disbursed to date under these contracts. The United States government accounted for 95% of revenues in 2005 and 99% of revenues in 2004. Certain contracts awarded in one period may be partly performed in the next period.

Cost and estimated earnings in excess of billings on uncompleted contracts comprises amounts of revenue recognized on contracts that we have not yet billed to a customer because the amounts were not contractually billable at the balance sheet date. We were contractually able to bill 89% and 100% of the balance at December 31, 2005 and 2004, respectively, within 30 days of the respective year end.

Property and Equipment

- Property and equipment is stated at cost. Depreciation is computed over the estimated useful lives of the assets (two to five years) using the straight-line method. Leasehold improvements are depreciated over the shorter of estimated useful lives or the initial lease term.

A summary of property and equipment at December 31 follows:

	2005	**2004**
Computer equipment	$644,000	$491,000
Furniture and office equipment	20,000	20,000
Lab equipment	3,513,000	3,244,000
Leasehold improvements	2,831,000	2,727,000
	$7,008,000	$6,482,000
Less: Accumulated depreciation	(5,732,000)	(4,435,000)

	$1,276,000	$2,047,000

Depreciation expense was $1,297,000 and $1,198,000 for 2005 and 2004, respectively.

Valuation of Long-Lived Assets

- We review the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of the impairment loss is based on the fair value of the asset, or group of assets. Generally, fair value will be determined using valuation techniques such as present value of expected future cash flows.

Research and Development

- Research and development costs are expensed as incurred. As described in Note 10, we issued shares of common stock in connection with a research agreement. The value of these shares is amortized over the period of the research agreement.

Fair Value of Financial Instruments

- Our financial instruments include cash and cash equivalents, investment securities, accounts receivable, accounts payable, and accrued liabilities. The carrying amounts of financial instruments approximate fair value due to their short maturities.

Income Taxes

- We have filed a separate tax return since inception. We follow the liability method of accounting for income taxes. This liability method requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Stock Based Compensation

- We have a stock-based employee compensation plan, which is described further in Note 7. We account for stock-based employee compensation arrangements on the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees* and related amendments and interpretations. We comply with the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, which requires fair value recognition for employee stock-based compensation. We account for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18.

Total non-cash stock option expense related to employee and director awards was $384,000 and $1,285,000 for the years ended December 31, 2005, and 2004. Had compensation cost for employee options been determined using the fair values at the grant dates, consistent with the methodology prescribed under SFAS No. 123, our net loss available to common shareholders and associated net loss per share would have increased to the pro forma amounts indicated below:

	For the year ended December 31,	
	2005	**2004**
Net loss available to common shareholders, as reported	$ (10,453,000)	$ (9,423,000)
Deduct: Stock-based employee compensation expense included in net loss available to common shareholders, as reported	$ 384,000	$ 1,285,000
Add: Total stock-based employee compensation expense determined under fair value-based method for all awards	$ (2,141,541)	$ (2,009,000)
Net loss available to common shareholders, pro forma	$ (12,210,541)	$ (10,147,000)
Net loss per share, as reported (basic and diluted)	$ (0.63)	$ (0.89)
Net loss per share, pro forma (basic and diluted)	$ (0.74)	$ (0.96)

See Note 7 for the assumptions used in calculating the fair values of employee options.

Net Loss per Share -

Basic net loss per share is calculated on the basis of the weighted-average number of common shares outstanding during the periods. Net loss per share assuming dilution is calculated on the basis of the weighted-average number of common shares outstanding and the dilutive effect of all potentially dilutive securities, including common stock equivalents and convertible securities.

Basic and diluted net loss per share is the same because all potentially dilutive securities outstanding are anti-dilutive. Potentially dilutive securities not included in the calculation of diluted earnings per share include options and warrants to purchase common stock for all periods presented, and Series A and Series B convertible preferred stock and periods prior to the IPO in 2004. Total common stock options and common stock warrants not included in the calculation of diluted earnings per share were 3,160,502 for 2005 and 2,664,176 for 2004 .

Recent Accounting Pronouncements

- Beginning in January 2006 we will be recording expenses associated with share-based awards under the provisions of SFAS(123)R using the modified prospective method. Under this method, we will record not only the fair value associated with new share-based awards as compensation expense, but also the remaining fair value associated with previous awards which were unvested at the end of 2005. As of December 31, 2005 the fair value associated with unvested stock option grants given to employees in periods before 2006 was approximately $1,696,000 which will be expensed through 2009. We expect that the adoption of FAS123(R) on January 1, 2006 will impact 2006 earnings in the range of $2.5 million to $3.5 million.

2.

INVESTMENT SECURITIES-AVAILABLE-FOR-SALE

Investment securities, which had maturities of less than one year, totaled $16,871,000 at December 31, 2005. Investment securities at December 31, 2004 with maturities of less than one year totaled $15,460,000 and maturities of greater than one year totaled $11,216,000. We estimate the fair value of our investment securities using readily available market information. All investment securities have been classified as available-for-sale and are carried at estimated fair value with unrealized gains and losses included as a component of accumulated other comprehensive income in stockholders' equity. We had an unrealized gain on investment securities of $127,000 for the year ending December 31, 2005 and an unrealized loss on investment securities of $145,000 for the year ending December 31, 2004. We have concluded that these unrealized investment gains and losses are temporary due to our ability to hold these investments to maturity.

We had no net realized gains (losses) on investment securities for the year ending December 31, 2005 and 2004.

3. RELATED PARTY TRANSACTIONS

Since inception until July 2004 we were a majority owned subsidiary of Microvision, Inc. The following table describes Microvision's ownership of Lumera at December 31 of each year:

	2005	2004
Common Stock	27.60%	32.84%
Class B common stock	-	-
Series A convertible preferred stock	-	-
Series B convertible preferred stock	-	-

In July 2004, all outstanding shares of the our Series A convertible preferred stock, Series B convertible preferred stock and Class B common stock were automatically converted to common stock upon completion of our IPO in July 2004. Prior to the IPO, Microvision owned approximately 52% of our outstanding common stock on an as if converted basis. In January 2006 Microvision sold 2.55 million of its shares, or approximately 16% of our outstanding shares; most of Microvision's remaining Lumera shares, which total approximately 12% of our outstanding shares as of March 1, 2006, are pledged as collateral under agreements which remain in effect until March 2007. Richard F. Rutkowski, until January 2006 the Chief Executive Officer of Microvision, was a current member of Microvision's board of directors and also a director of Lumera.

In February 2004, we agreed to pay Mr. Rutkowski a $5,000 monthly retainer to supplement our management team during our public offering. During this retainer period, which ended in July 2004, Mr. Rutkowski also performed his role as Chief Executive Officer of Microvision. We also paid Mr. Rutkowski a one-time fee of $100,000 upon the successful completion of our convertible note financing in April 2004. We recognized $130,000 of administrative expense related to these fees in 2004. In addition, we paid Mr. Rutkowski a one-time fee of $100,000 upon the participation in and successful completion of our initial public offering, which was treated as a cost of raising capital. The boards of both Microvision and Lumera approved paying Mr. Rutkowski these fees.

During 2004, we were allocated lease and utilities costs from Microvision under a month-to-month lease. In addition, we were charged a $5,000 per month fee to reimburse Microvision for certain other indirect charges.

In 2004, we entered into a sublease agreement with Microvision for its corporate facilities at a base rate of approximately $25,000 per month, plus common area charges, which is effective through April 6, 2006.

The following are a summary of charges we paid to Microvision for each year ended December 31:

	2005	2004
Rent	$ 323,000	$ 320,000
Allocated Services	89,000	57,000
Fees	-	60,000
Total	$ 412,000	$ 437,000

4. ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31:

	2005	2004
Employee and benefit-related liabilities	$ 372,000	$ 363,000
Compensated absences	94,000	81,000
Professional fees	384,000	493,000
License and royalty fees	175,000	-
Other	34,000	39,000
	$ 1,059,000	$ 976,000

5. INCOME TAXES

No provision for income taxes has been recorded for any periods presented since we have incurred net losses from the date of our inception.

At December 31, 2005, we had $44.1 million of federal net operating loss carry forwards, which may be used to offset future taxable income. These carry forwards expire beginning in 2018 through 2024. The Internal Revenue Code places certain limitations on the annual amount of net operating loss carry forwards that can be utilized if certain changes in our ownership occur.

At December 31, 2005 we had $1,055,000 of research and experimentation credits carry forwards which begin to expire in 2019 through 2024.

Deferred taxes consist of the following at December 31:

	2005	2004
Deferred income tax assets		
Net operating loss carryforwards	$ 14,997,000	$ 11,673,000
R&D credit carryforwards	1,055,000	868,000
Other	1,412,000	1,194,000
Gross deferred tax assets	17,464,000	13,735,000
Less: valuation allowance	(17,464,000)	(13,735,000)
Net deferred tax asset	$ -	$ -

We recorded a valuation allowance for the full amount of its deferred tax assets at December 31, 2005 and 2004, as we believe it is more likely than not that the deferred tax assets will not be realized.

The valuation allowance and the research and experimentation credits account for substantially all of the difference between our effective income tax rate and the Federal statutory rate of 34%.

6. SHAREHOLDERS' EQUITY

At December 31, 2005, our authorized capital consisted of 120 million shares of Common Stock, of which 1,299,956 shares are reserved for options granted under our 2000 Stock Option Plan and 2,500,000 shares are reserved for outstanding and future option grants under our 2004 Equity Incentive Plan. We also have 30,000,000 shares of authorized undesignated preferred stock, none of which have been issued.

In July 2004 we completed our initial public offering (the "IPO"), issuing 6 million shares of common stock at $6.95 per share. Upon completion of the IPO all outstanding shares of our Common A and B and Preferred A and B shares were automatically converted to common shares. At December 31, 2005 there were 16,748,116 shares of common stock outstanding.

Common Stock

- In March 2000, we issued 4,700,000 shares of its Class B common stock to Microvision, Inc. and 670,000 shares of its Class B common stock to certain Microvision directors, executives, and other individuals ("individuals"). The shares issued to Microvision were valued at $94,000 and the proceeds were offset against the outstanding loan balance due. The shares issued to the individuals were valued at $12,000 and were issued subject to subscription loans, for which cash was received in November 2000.

In January 2001, we issued 802,414 shares of Class A common stock valued at $3,009,000 in connection with the research agreement described in Note 10.

Upon our initial public offering in July 2004 all shares of common A and B were automatically converted to Common Stock on a one-for-one basis.

Convertible Preferred Stock

- In March 2004, we raised $500,000 from the sale of 250,000 shares of Series B convertible preferred stock to private investors issued in March 2004. The $2 per share conversion price of the Series B convertible preferred stock issued was less than the fair value of the Class A common stock on the issuance date. As a result, we recorded a $500,000 beneficial conversion feature upon issuance of the preferred stock. This amount was immediately recorded as a deemed dividend to preferred shareholders because the Series B convertible preferred stock had no stated term and was immediately convertible into Class A common stock.

Upon our initial public offering in July 2004 all shares of convertible preferred stock were automatically converted to Common Stock. Each Series A Preferred share was converted into 1.14 shares of common stock in accordance with anti-dilution provisions enacted upon the sale of the Preferred B shares resulting in 2,727,291 shares of common stock issued in exchange for 2,400,000 Series A Preferred shares. Each share of Series B Preferred was exchanged for common shares on a one-for-one basis, resulting in the issuance of 1,585,025 shares of common stock issued in exchange for the Series B Preferred shares.

Dividends

- No dividends on convertible preferred stock or common stock have been declared from inception through December 31, 2005.

Arizona Microsystems, L.L.C. warrants exercised

- In October 2002, we issued a warrant to purchase 164,000 shares of Class A common stock at an exercise price of $3.65 per share to Arizona Microsystems, L.L.C. for use of certain technology. These warrants were exercised in a cashless transaction for 38,935 shares of common stock in July 2004.

7. STOCK OPTIONS

Stock Option Plans

In 2000, we adopted the 2000 Stock Option Plan (the "2000 Plan"). The 2000 Plan provided for the granting of stock options to our employees, consultants and non-employee directors. We reserved 3,000,000 shares of Class A Common Stock for issuance pursuant to the 2000 Plan. Following the adoption of the 2004 Equity Incentive Plan in July 2004, no more options will be issued under the 2000 Stock Option Plan. Grants, net of shares exercised and forfeited, under our 2000 Stock Option Plan totaled 1,299,956 shares at December 31, 2005.

In July 2004, we adopted the 2004 Equity Incentive Plan (the "2004 Plan"). Awards under the Plan, can be a combination of stock options, stock appreciation rights , restricted stock, unrestricted stock, stock units (including restricted stock units), performance awards, cash awards and other awards not described that are convertible into or otherwise based on the our stock. To date, only stock option awards have been granted under the Plan.

The 2004 Plan established an initial option pool of 2,000,000 shares plus an annual increase beginning in 2005, equal to the least of (i) 2,000,000 shares, (ii) 13.4% of the number of shares of Stock outstanding as of our immediately preceding fiscal year, or (iii) such lesser amount, if any, as the Board may determine. Our Board of Directors elected to limit the increase in the option share pool by 500,000 shares in both 2005 and 2006, bringing the shares in the pool to a total of 3,000,000.

Options under both the 2000 plan and the 2004 Plan may be granted for periods up to 10 years. Options granted under either plan may be either Incentive Stock Options ("ISO"'s) or non-qualified stock options. The exercise price of an ISO cannot be less than 100% of the estimated fair value of the common stock at the date of grant. To date, options granted to employees generally vest over four years.

The following table presents activity under the Plan:

Activity	Shares	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value

Outstanding at December 31, 2003	905,180	$ 6.47	
Granted			
Exercise price greater than fair value	5,000	$ 2.00	$ 0.65
Exercise price at fair value	257,550	$ 6.12	$ 4.16
Exercise price less than fair value	709,900	$ 2.19	$ 3.99
Forfeited	(76,250)	$ 4.01	
Exercised	(22,750)	$ 1.01	
Outstanding at December 31, 2004	1,778,630	$ 4.88	
Granted			
Exercise price greater than fair value			
Exercise price at fair value	733,950	$ 5.05	$ 3.56
Exercise price less than fair value			
Forfeited	(35,938)	$ 5.95	
Exercised	(201,686)	$ 2.16	
Outstanding at December 31, 2005	2,274,956	$ 5.16	
Options Exerciseable at:			
December 31, 2004	1,105,033	$ 5.42	
December 31, 2005	1,345,071	$ 5.56	

The following table presents outstanding and exercisable stock options at December 31, 2005:

	Options Outstanding			Options Exercisable	
Exercise Price	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$0.50 - $2.50	680,551	7.50	$ 1.91	512,973	$ 1.88
$3.65 - $5.49	872,700	8.55	$ 4.82	195,662	$ 4.60
$5.50 - $10.00	721,705	6.19	$ 8.62	636,436	$ 8.82
	2,274,956	7.49	$ 5.15	1,345,071	$ 5.56

<u>Non-Employee Options</u>

- Included in the option disclosures above are options granted to certain non-employees under our plan, as follows:

In August 2003, we issued options to purchase an aggregate of 164,000 shares of its Class A common stock to two consultants in connection with entering into certain consulting agreements. In April 2004, 61,500 of these shares were forfeited upon termination of one of the consulting agreements. The options have an exercise price of $3.65 per share and a 10-year life. In aggregate, 41,000 of the options were vested on the grant date. The remaining 61,500 shares vest one-third on each subsequent annual anniversary of the grant date and are subject to re-measurement at each balance sheet date during the vesting period. The aggregate value of the outstanding options was estimated at $415,000 at December 31, 2004 and at $299,000 at December 31, 2005. The fair value of these options, net of forfeited options was recognized as compensation expense over the two-year period of service, which ended in August 2005. Total non-cash compensation expense related to these options was $4,000, and $287,000 for the year ended December 31, 2005, and 2004 respectively. The fair values of the options were estimated at the grant date and December 31, 2005 and 2004, using the Black-Scholes option pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 100%; risk-free interest rates of 4.3%, 4.62%, and 4.4%; and expected lives of 10 years, for each of the measurement dates, respectively.

In March 2004, we granted options under the 2000 Plan to purchase 65,000 shares of Class A common stock to a Microvision employee. These options have been accounted for as a dividend to Microvision and recorded at their fair value of $272,000, in accordance with the guidance in EITF Issue No. 00-23 Issue 21, Options Granted to Employees of Entities under Common Control.

Options issued at below market price

- In March 2004 we granted options under the 2000 Plan to its CEO and each of our Directors to purchase an aggregate of 410,000 shares of common stock at a price below the then current market value. Our Directors were each awarded options to purchase 65,500 shares, of which 30,000 shares vested on the date of grant with 5,000 shares vesting quarterly thereafter until fully vested, have an exercise price of $2 per share and a 10-year life. Our CEO was awarded an option to purchase 150,000 shares, of which 50,000 vested September 1, 2004 and 50,000 annually thereafter until fully vested, with an exercise price of $2 per share and a 10-year life. The aggregate value of these options was estimated to be $1,230,000 and is being recognized as compensation expense over the vesting periods. We recognized $169,000 and $922,000 of compensation expense associated with these option grants during the years ended December 31, 2005 and 2004, respectively, net of forfeited options.. As of December 31, 2005, $40,000 of deferred compensation remained to be amortized on these option grants.

In April 2004 we granted options under the 2000 Plan to its employees to purchase an aggregate of 156,650 shares of common stock at a price below the then current market value. The options have an exercise price of $2.00 per share and a 10-year life. One quarter of the options vested on July 1, 2004 with the remaining options vesting annually over the subsequent three years until fully vested. In July 2004, we issued options under the 2000 Plan to its employees to purchase an aggregate of 78,250 shares of common stock at a price below the then current market value. The options have a weighted average exercise price of $3.76 per share and a 10-year life. The aggregate value of these option grants was estimated at $801,000 and is being recognized as compensation expense over the vesting period. We recognized compensation expense associated with these option grants of $215,000 and $360,000, net of forfeited options, for the years ended December 31, 2005 and 2004, respectively. As of December 31, 2005, $162,000 of deferred compensation remained to be amortized.

A summary of stock compensation expense for each period is as follows:

	For the twelve months ended December 31,	
	2005	2004
Employees	$ 343,000	$ 644,000
Directors	41,000	641,000
Third Party	85,000	608,000
	$ 469,000	$ 1,893,000
Component of:		
Research and development	$ 95,000	$ 573,000
Marketing, general and administrative	374,000	1,320,000
	$ 469,000	$ 1,893,000

Fair Value Disclosure

- The fair values of the options granted to employees were estimated on the date of each grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2005, 2004 and 2003, respectively:

December 31,	
2005	2004

Risk Free Interest Rate	4.05%	3.2%
Expected Life (in years)	5.6	5.2
Dividend Yield	0.0%	0.0%
Volatility	83.0%	83.0%

8. WARRANTS

In October 2002, we issued a warrant to purchase 164,000 shares of Class A common stock at an exercise price of $3.65 per share to Arizona Microsystems, L.L.C. for use of certain technology. These warrants were exercised in a cashless transaction for 38,935 common shares in July 2004.

In April 2004 we issued warrants to purchasers of its convertible promissory notes for an aggregate of 115,000 shares of Common Stock at and exercise price of $7.20 per share. The value of the warrants granted, which are exercisable through April 21, 2009, was estimated to be approximately $344,000 using the Black Scholes option pricing model. The relative fair value of the warrants of $301,000 was treated as a debt issuance cost and amortized to interest expense over the one-year term of the debt.

In July 2004 we issued warrants to its Underwriters in connection with our initial public offering to purchase a total of 600,000 shares of our common stock at a purchase price of $8.34, or 120% of the price of the shares upon completion of our IPO. The warrants are exercisable through July 28, 2009. These warrants were treated as a cost of raising capital.

Microvision holds a warrant to purchase a total of 170,546 shares of Common Stock at an exercise price of $8.80 per share. The warrant, which was originally issued in 2001 for 150,000 Series A Preferred shares in lieu of interest payments due on a convertible note, and was exercisable at $10.00 per share, carried anti-dilution rights which, upon completion of our IPO, triggered an automatic adjustment to the number of shares and exercise price. The warrant, all of which was outstanding at December 31, 2005, expires in March 2011 and was valued by the amount of the interest forgiven or $719,000, as this was considered to be more readily determinable than the fair value of the warrant.

9. CONVERTIBLE NOTES PAYABLE

In April 2004, we received cash proceeds from the issuance of convertible promissory notes in the aggregate principal amount of $2.3 million. The notes accrued interest at a rate of 6.5% per annum and were payable on demand at the earlier of March 31, 2005 or upon the closing of an underwritten public offering of our common stock. The principal amount and any accrued but unpaid interest in respect of each note was convertible, at the option of the holder, into shares of our Class A common stock. The conversion price of the Notes was stated as the lesser of $6.00 per share of common stock or the price per share offered to the public in any underwritten IPO of our common stock.

In connection with the sale of these convertible notes, we also issued warrants to purchase an aggregate of 115,000 shares of common stock at a price of $7.20 per share. The warrants expire in April 2009. The value of the warrants granted was estimated to be approximately $344,000 at the date of grant using the Black-Scholes option pricing model. We allocated the proceeds to the convertible note and warrant based on their relative fair value. The relative fair value of the warrants of $301,000 was treated as a debt issuance cost and was amortized to interest expense over the one-year term of the debt.

Upon completion of our IPO in July 2004 the notes became due and payable. All of the note holders elected to receive cash payments, which resulted in principal and interest payments totaling $2,344,000 in August 2004. The unamortized debt issuance costs were recognized immediately as interest expense at that time. During 2004, we recognized a total of $345,000 of interest expense associated with the Notes.

10. COMMITMENTS AND CONTINGENCIES

Agreements with the University of Washington

- In October 2000, we entered into a license agreement (the "License Agreement") and a research agreement (the "Sponsored Research Agreement" or the "SRA") with the University of Washington (the "UW"). The License Agreement grants us rights to certain intellectual property including technology being developed under the sponsored Research Agreement whereby hawse have a royalty-bearing license to make, sell or sublicense the licensed technology. Under the terms of the License Agreement, we issued 802,414 shares of our Class A common stock to the UW. The shares, although initially subject to a vesting schedule tied to performance under the Sponsored Research Agreement, were vested in full by mutual agreement between the UW and Lumera on January 8, 2001. The shares issued were valued by management at $3,009,000, based on a value of $3.75 per share on the date of issuance. We considered a number of factors, including an independent valuation, projected cash flows from our technology and expected future products, general market conditions and the risks inherent in achieving our business plan in determining the fair value of the common shares issued. The value of the shares issued was recorded as prepaid stock-based research expense and was fully amortized to expense as of March 31, 2004.

Under the terms of the License Agreement, we are also required to pay certain costs related to filing and processing of patents and copyrights related to the agreements. Additionally, we are required to pay certain ongoing royalty payments at a minimum of $75,000 per annum. We have not made any royalty payments to date in excess of these minimums. These payments have been expensed as incurred.

As part of the Sponsored Research Agreement, we agreed to pay an aggregate of $9,000,000 in quarterly payments over three years for research services. The first payment was made on February 26, 2001. We expensed the total expected payments on a straight-line basis because there was no more readily determinable pattern of the performance of the research services under the agreement.

In February 2002, Lumera and the UW amended the Sponsored Research Agreement to extend quarterly payments and performance through 2005. In March 2003, we entered into a second amendment to the SRA, which deferred certain 2003 payments until 2004. In November 2003, we entered into a third amendment to the SRA. Under the terms of the third amendment, our payment obligation to the UW was reduced to $125,000 per quarter from October 1, 2003 to September 30, 2004, and $300,000 for the quarter ending December 31, 2004. The amendment required us to make its unpaid payments of $2,000,000 by May 2005. In April 2004, we entered into a fourth amendment to the SRA that required payments of $125,000 for the quarters ending March 31, 2004 and September 30, 2004 and eliminated a contingent payment of $2,000,000 that had been due in April 2004. For each of the quarters ending September 30, 2004 and December 31, 2004, we were required to pay $250,000. Total payments under the Amended Sponsored Research Agreement, which terminated in June 2005, were $5,750,000 instead of the $9,000,000 under the terms of the original agreement.

Subsequent to each amendment noted above, we prospectively adjusted the amortization of the research payments to account for the extended period over which the payments would be made and services provided. As a result of these adjustments, we had cumulatively recognized expenses in excess of payments made of $1,948,000 at December 31, 2003. As a result of the fourth amendment and the elimination of the contingent $2 million payment in 2005, we recognized a credit to research and development expense of $2.4 million in 2004.

The following table summarizes payments made and expense recorded during the years ending December 31:

	2005	2004
Payments made	$ 1,018,000	$ 800,000
Sponsored research	$ 650,000	$ (1,223,000)
Optical materials	166,000	50,000
Minimum royalty	75,000	75,000
Expenses recorded on payments	$ 891,000	$ (1,098,000)

Amortization of stock	-	159,000
Total expense recorded	$ 891,000	$ (939,000)

Helix Biopharma/Sensium

- We have a licensing agreement with Sensium Technologies, Inc., a subsidiary of Helix BioPharma, which gives us an exclusive worldwide royalty bearing license in our field of business to a number of patents and the related technology for use in our NanoCapture™ Arrays. Under the terms of the agreement, we paid $250,000 in license fees, half of which we paid upon signing in January 2005 and half in February 2006. We also paid a $125,000 in technology transfer fees during the first half of 2005. The Sensium licensing agreement contains minimum royalty provisions totaling $50,000 for the first year, $100,000 for the second year, $150,000 for the third year and $200,000 thereafter. Our license exclusivity is based upon achieving certain minimum revenues by the fourth royalty year.

Lease Commitments

- We sublease our corporate facilities from Microvision at a base rate of approximately $25,000 per month, plus common area charges; the sublease is effective through April 6, 2006. We signed a five year lease to expand our current facilities which begins April 7, 2006. Once we complete our tenant improvements, which we believe will require cash expenditures in the range of $900,000 to $1.2 million, our facilities will occupy approximately 32,175 square feet of space located in the same building we currently occupy. The total of the minimum rental payments over the life of the initial lease term is approximately $2.5 million. We have an option to extend our new lease for one additional 5 year period. We had no other significant operating or capital leases at December 31, 2005.

Claims and Litigation

- In our opinion, litigation, contingent liabilities and claims against us in the normal course of business are not expected to involve any judgments or settlements that would be material to our financial condition, results of operations or cash flows.

11. RETIREMENT SAVINGS PLAN

On August 31, 2004, we established its retirement savings plan (the "Plan"), which qualifies under the Internal Revenue Code Section 401(k) and covers all qualified employees. The Plan allows us to match 50% of an employee's contribution to the Plan up to a maximum 6% of the employee's base salary. During 2005 we contributed $57,000 to the Plan under the matching program and from September through December 31, 2004, we contributed $21,000 to the Plan under the matching program. Prior to August 31, 2004 our employees participated in the Microvision retirement savings plan. We contributed $33,000 in matching payments under the Microvision Plan in the first eight months of 2004.

12. QUARTERLY FINANICAL DATA (UNAUDITED)

The following table represents certain unaudited quarterly financial information for the eight quarters ended December 31, 2005. In our opinion, this information has been prepared on the same basis as the audited financial statements and includes all adjustments (consisting only of normal recurring adjustments) necessary to fairly state the unaudited quarterly results of operations set forth herein.

		First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Fiscal Year**
		(in thousands, except per share data)				
Total Revenue						
	2005	$ 240	$ 348	$ 681	$ 240	$ 1,509
	2004	$ 316	$ 288	$ 292	$ 93	$ 989
Gross Profit						
	2005	72	131	215	169	587
	2004	122	100	128	(12)	338

Net Loss Available to Common Shareholders					
2005	(2,878)	(2,926)	(2,034)	(2,615)	(10,453)
2004	(2,592)	(732)	(3,176)	(2,923)	(9,423)
Basic and diluted net loss per share attributable to common stockholders					
2005	$ (0.17)	$ (0.18)	$ (0.12)	$ (0.16)	$ (0.63)
2004	$ (0.50)	$ (0.04)	$ (0.24)	$ (0.18)	$ (0.89)

Quarterly and annual earnings per share are calculated independently, based on the weighted average number of shares outstanding during the periods.

LUMERA CORPORATION

Schedule II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	Balance at	Charges to	Charges						
Balance, August 31, 2006			$ 481	$ 560,973	$ 192,155	$ (21,848)	$ 5,356	$ (194,858)	$ 542,259
Comprehensive income:									
Net income	$ 148,054				148,054				148,054
Other comprehensive income (loss):									
Foreign currency translation adjustment (net of tax expense of $0)	4,550						4,550		4,550
Minimum pension liability adjustment (net of tax of $6,415)	11,404					11,404			11,404
Other comprehensive income	15,954								
Comprehensive income	$ 164,008								
Impact of adopting SFAS 158 (net of tax of $5,015)						(8,975)			(8,975)
Amortization, issuance, and forfeitures of restricted stock grants			(1)	8,884					8,883
Employee Stock Purchase Plan issuances				741					741
Cash dividends of $0.60 per share paid on common stock					(26,359)				(26,359)
Stock options exercised			13	25,743					25,756
Repurchases of common stock								(49,707)	(49,707)
Tax effect on stock options and restricted stock				15,360					15,360
Balance, August 31, 2007			$ 493	$ 611,701	$ 313,850	$ (19,419)	$ 9,906	$ (244,565)	$ 671,966
Comprehensive income:									
Net income	$ 148,255				148,255				148,255
Other comprehensive income (loss):									
Foreign currency translation adjustment (net of tax expense of $0)	5,012						5,012		5,012
Minimum pension liability adjustment (net of tax of $2,457)	(6,508)					(6,508)			(6,508)
Other comprehensive loss	(1,496)								
Comprehensive income	$ 146,759								
Impact of spin-off of specialty products					(71,553)		(11,810)		(83,363)
Impact of adopting FIN 48					(1,182)				(1,182)
			2	5,166					5,168

Amortization, issuance, and forfeitures of restricted stock grants							
Employee Stock Purchase Plan issuances		509					509
Cash dividends of $0.54 per share paid on common stock			(22,466)				(22,466)
Stock options exercised	2	4,037					4,039
Repurchases of common stock						(150,906)	(150,906)
Tax effect on stock options and restricted stock		5,022					5,022
Balance, August 31, 2008	$ 497	$ 626,435	$ 366,904	$ (25,927)	$ 3,108	$ (395,471)	$ 575,546

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ACUITY BRANDS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME (Continued)

(In thousands, except share and per-share data)

	Compre-hensive Income	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) Items: Pension Liability	Accumulated Other Comprehensive Income (Loss) Items: Currency Translation Adjustment	Treasury Stock	Total
Comprehensive income:								
Net income	$ 84,909			84,909				84,909
Other comprehensive income (loss):								
Foreign currency translation adjustment (net of tax expense of $0)	(18,474)					(18,474)		(18,474)
Pension liability adjustment (net of tax of $9,169)	(16,130)				(16,130)			(16,130)
Other comprehensive loss	(34,604)							
Comprehensive income	$ 50,305							
SFAS 158 adjustment (net of tax of $289)				(454)				(454)
Common Stock reissued from Treasury Shares for acquisition of businesses			7,175	(25,556)			73,155	54,774
Amortization, issuance, and forfeitures of restricted stock grants		1	10,182					10,183
Employee Stock Purchase Plan issuances			265					265
Cash dividends of $0.52 per share paid on common stock				(21,634)				(21,634)
Stock options exercised		1	2773					2,774
Repurchases of common stock								
Tax effect on stock options and restricted stock			381					381
Balance, August 31, 2009		$ 499	$ 647,211	$ 404,169	$ (42,057)	$ (15,366)	$ (322,316)	$ 672,140

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

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ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except share and per-share data and as indicated)

Note 1: Description of Business and Basis of Presentation

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

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 Note 2 *Discontinued Operations*.

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

Note 2: Discontinued Operations

As described in Note 1 *Description of Business and Basis of Presentation*, the Company completed the Spin-off of the specialty products business on October 31, 2007.

A summary of the operating results for the discontinued operations is as follows:

	Years Ended August 31,		
	2009	**2008**	**2007**
Net Sales	$	$ 97,755	$ 565,887
Income before Provision for Income Taxes	$	$ 2,946	$ 33,701
Provision for Income Taxes	288	3,323	14,334
Net Income (Loss) from Discontinued Operations	$ (288)	$ (377)	$ 19,367

The loss from discontinued operations for fiscal 2009 was $0.3 million, a decrease of $0.1 million from the prior-year loss and relates to tax adjustments associated with pre-spin activities.

In conjunction with the Spin-off, Acuity Brands and Zep entered into various agreements that address the allocation of assets and liabilities between them and that define their relationship after the separation, including a distribution agreement, a tax disaffiliation agreement, an employee benefits agreement, and a transition services agreement. Pursuant to the distribution agreement, Zep drew on its financing arrangements and paid a $62.5 million dividend to the Company, which was subject to adjustment based on the actual cash flow performance of Zep prior to the Spin-off. A dividend adjustment of approximately

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$4 million plus interest was disbursed to Zep by the Company during the third quarter of fiscal 2008 resulting in a reduction of the dividend received from Zep. Information regarding guarantees and indemnities related to the Spin-off are included in Note 8 *Commitments and Contingencies*.

Note 3: Summary of Significant Accounting Policies

Principles of Consolidation

The *Consolidated Financial Statements* include the accounts of Acuity Brands and its wholly-owned subsidiaries after elimination of significant intercompany transactions and accounts.

Revenue Recognition

The Company records revenue when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the Company s price to the customer is fixed and determinable, and collectability is reasonably assured. Delivery is not considered to have occurred until the customer assumes the risks and rewards of ownership. Customers take delivery at the time of shipment for terms designated free on board shipping point. For sales designated free on board destination, customers take delivery when the product is delivered to the customer s delivery site. Provisions for certain rebates, sales incentives, product returns, and discounts to customers are recorded in the same period the related revenue is recorded. The Company also maintains one-time or on-going marketing and trade-promotion programs with certain customers that require the Company to estimate and accrue the expected costs of such programs. These arrangements include cooperative marketing programs, merchandising of the Company s products, and introductory marketing funds for new products and other trade-promotion activities conducted by the customer. Costs associated with these programs are reflected within the Company s *Consolidated Statements of Income* in accordance with Emerging Issues Task Force Issue No. 01-09: *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products)*, which in most instances requires such costs be recorded as a reduction of revenue.

The Company provides for limited product return rights to certain distributors and customers primarily for slow moving or damaged items subject to certain defined criteria. The Company monitors product returns and records, at the time revenue is recognized, a provision for the estimated amount of future returns based primarily on historical experience and specific notification of pending returns. Although historical product returns generally have been within expectations, there can be no assurance that future product returns will not exceed historical amounts. A significant increase in product returns could have a material impact on the Company s operating results in future periods.

For the Company s turn key labor renovation and relight services, revenue is earned on installation services and lighting fixtures. Revenue is recognized for the service and fixtures in the period that the installation of the fixtures is completed.

Use of Estimates

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

Cash and Cash Equivalents

Cash in excess of daily requirements is invested in time deposits and marketable securities and is included in the accompanying balance sheets at fair value. Acuity Brands considers time deposits and marketable securities with an original maturity of three months or less when purchased to be cash equivalents.

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Accounts Receivable

The Company records accounts receivable at net realizable value. This value includes an allowance for estimated uncollectible accounts to reflect losses anticipated on accounts receivable balances. The allowance is based on historical write-offs, an analysis of past due accounts based on the contractual terms of the receivables, and economic status of customers, if known. Management believes that the allowance is sufficient to cover uncollectible amounts; however, there can be no assurance that unanticipated future business conditions of customers will not have a negative impact on the Company s results of operations.

Concentrations of Credit Risk

Concentrations of credit risk with respect to receivables, which are typically unsecured, are generally limited due to the wide variety of customers and markets using Acuity Brands products, as well as their dispersion across many different geographic areas. Receivables from The Home Depot were approximately $30.2 million and $35.2 million at August 31, 2009 and 2008, respectively. No other single customer accounted for more than 10% of consolidated receivables at August 31, 2009. Additionally, net sales to The Home Depot accounted for approximately 11% of net sales of the Company in both fiscal 2009 and 2008 and 13% in fiscal 2007.

Reclassifications

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

Inventories

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

	August 31,	
	2009	**2008**
Raw materials, components, and supplies	$ 69,817	$ 66,919
Work in progress	11,913	12,508
Finished goods	70,305	76,470
	152,035	155,897
Less: Reserves	(11,238)	(10,172)
	$ 140,797	$ 145,725

Goodwill and Other Intangibles

Summarized information for the Company s acquired intangible assets is as follows:

	August 31, 2009		**August 31, 2008**	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortized intangible assets:				
Patents and trademarks	$ 29,075	$ (14,231)	$ 24,500	$ (12,641)
Distribution network and customer relationships	89,683	(19,252)	56,400	(16,066)
Other	4,625	(1,087)	4,026	(513)
Total	$ 123,383	$ (34,570)	$ 84,926	$ (29,220)

Unamortized trade names	$ 96,013	$ 73,613

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Through multiple acquisitions, the Company acquired intangible assets consisting primarily of trademarks associated with specific products with finite lives and distribution networks which are amortized over their estimated useful lives. Other acquired definite lived intangible assets consist primarily of patented technology, non-compete agreements, and customer relationships. Indefinite lived intangible assets consist of trade names that are expected to generate cash flows indefinitely. Significant estimates and assumptions were used to determine the fair value of these acquired intangible assets in accordance with U.S. GAAP. The current year increases in the gross carrying amounts for the acquired intangible assets were due to the Lighting Control and Design, Inc. (LC&D) and Sensor Switch, Inc. and related subsidiaries (Sensor Switch) (refer to Note 10 *Acquisitions*). With regards to the LC&D acquisition, the weighted average useful life of the intangible assets with finite lives acquired by the Company was 12.8 years, which consisted of intangible assets related to distribution networks and customer relationships. In the acquisition of Sensor Switch, the Company acquired intangible assets with finite lives related to patented technology and distribution networks and customer relationships with weighted average useful lives of 12.0 and 19.9 years, respectively. The total weighted average useful life for these intangible assets acquired during the Sensor Switch acquisition was 18.9 years.

The Company recorded amortization expense of $5.4 million, $3.7 million and $3.2 million related to intangible assets with finite lives during fiscal 2009, 2008, and 2007, respectively. Amortization expense is expected to be approximately $6.4 million in both fiscal 2010 and 2011, $5.4 million in fiscal 2012, and $4.6 million in both fiscal 2013 and 2014. The decrease in expected amortization expense in fiscal 2012 is due to the completion of the amortization during fiscal 2011 of certain acquired patented technology assets. The decrease in fiscal 2013 is due to the completion of the amortization during fiscal 2012 of certain acquired customer relationships. Included in these amounts are the impact of incremental amortization expense for the December 31, 2008 acquisition of substantially all the assets and the assumption of certain liabilities of LC&D and the April 20, 2009 acquisition of Sensor Switch.

The changes in the carrying amount of goodwill during the year are summarized as follows:

Goodwill:	
Balance as of August 31, 2008	$ 342,306
Acquisitions	169,662
Currency translation adjustments	(1,405)
Balance as of August 31, 2009	$ 510,563

The Company tests indefinite lived intangible assets and goodwill for impairment on an annual basis or more frequently as facts and circumstances change, as required by Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. The goodwill impairment test has two steps. The first step identifies potential impairments by comparing the fair value of a reporting unit with its carrying value, including goodwill. The fair values are determined based on a combination of valuation techniques including the expected present value of future cash flows, a market multiple approach, and a comparable transaction approach. If the fair value of a reporting unit exceeds the carrying value, goodwill is not impaired and the second step is not necessary. If the carrying value of a reporting unit exceeds the fair value, the second step calculates the possible impairment loss by comparing the implied fair value of goodwill with the carrying value. If the implied fair value of the goodwill is less than the carrying value, an impairment charge is recorded. The impairment test for unamortized trade names consists of comparing the fair value of the asset with its carrying value. The Company estimates the fair value of these unamortized trade names using a fair value model based on discounted future cash flows. If the carrying amount exceeds the measured fair value, an impairment loss would be recorded in the amount of the excess. In accordance with U.S. GAAP, significant assumptions were used in the determination of estimated fair value for both goodwill and indefinite lived intangible assets. Neither of the analyses resulted in an impairment charge during fiscal 2009, 2008, or 2007.

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Other Long-Term Assets

Other long-term assets consist of the following:

	August 31, 2009	August 31, 2008
Long-term investments[1]	$ 3,134	$ 5,078
Assets held for sale	3,989	3,989
Investments in nonconsolidating affiliates[2]	8,911	
Miscellaneous	7,825	7,042
	$ 23,859	$ 16,109

(1) Long-term investments The Company maintains certain investments that generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The investments primarily consist of marketable equity securities and fixed income securities, are stated at fair value, and are classified as trading in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Realized and unrealized gains and losses are included in the *Consolidated Statements of Income* and generally offset the change in the deferred compensation liability. The decrease since August 31, 2008 was due primarily to payments made to certain participants in these deferred compensation arrangements and a decrease in the market value of the assets.

(2) Investments in nonconsolidating affiliates The Company possesses an equity investment in an unconsolidated affiliate. This strategic investment represents less than a 20% ownership interest in the privately-held affiliate, and the Company does not maintain power over or control of the entity. The Company accounts for this investment using the cost method. Hence, the historical cost of the acquired shares represents the carrying value of the investment, and, due to several factors, it is impracticable to precisely determine the fair value of the investment, although the Company estimates that the fair value approximates the carrying value at August 31, 2009.

As of August 31, 2009, the Company reported assets held for sale of $9.6 million, which were comprised of $5.6 million in short-term assets and $4.0 million in long-term assets. The assets represent three properties that the Company intends to sell to third parties within one year, or, in certain circumstances, beyond one year as allowed by SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, as the facilities have been deemed unnecessary to current operations.

Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	August 31, 2009	August 31, 2008
Deferred compensation and postretirement benefits other than pensions[1]	$ 33,680	$ 36,209
Postemployment benefit obligation[2]	387	387
FIN 48 Liability, including interest[3]	7,095	7,696
Deferred rent	2,820	3,324
Miscellaneous	3,466	2,812
	$ 47,448	$ 50,428

(1) Deferred compensation and long-term postretirement benefits other than pensions The Company maintains several non-qualified retirement plans for the benefit of eligible employees, primarily deferred compensation plans. The deferred compensation plans provide for elective deferrals of an eligible employee s compensation and, in some cases, matching contributions by the Company. In addition, one plan provides for an automatic contribution by the Company of 3% of an eligible employee s compensation. The Company maintains certain long-term investments that offset a portion of the deferred compensation liability. The Company maintains life insurance policies on certain current and former officers and other key employees as a means of satisfying a portion of these

obligations.

(2) Postemployment benefit obligation SFAS No. 112, *Employers Accounting for Postemployment Benefits*, requires the accrual of the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement. Acuity Brands accrual relates primarily to the liability for life insurance coverage for certain eligible employees.

(3) The Company adopted FIN No. 48 *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* effective September 1, 2007. See Note 11 to the *Notes to Consolidated Financial Statements* for more information.

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Shipping and Handling Fees and Costs

The Company includes shipping and handling fees billed to customers in *Net Sales*. Shipping and handling costs associated with inbound freight and freight between manufacturing facilities and distribution centers are generally recorded in *Cost of Products Sold*. Other shipping and handling costs are included in *Selling, Distribution, and Administrative Expenses* and totaled $86.8 million, $84.6 million, and $83.3 million in fiscal 2009, 2008, and 2007, respectively.

Share-Based Compensation

The Company accounts for share-based compensation under Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. SFAS No. 123(R) requires compensation cost relating to share-based payment transactions to be recognized in financial statements and that this cost be measured based on the estimated fair value of the equity or liability instrument issued. SFAS No. 123(R) also requires that forfeitures be estimated over the vesting period of the instrument. Effective September 1, 2005, the Company adopted SFAS No. 123(R) using the modified prospective method and applied it to the accounting for the Company s stock options and restricted shares, and share units representing certain deferrals into the Director Deferred Compensation Plan or the Supplemental Deferred Savings Plan (see Note 7 *Share Based Payments* of *Notes to Consolidated Financial Statements* for further discussion of these plans). Under the modified prospective method, share-based expense recognized after adoption includes: (a) share-based expense for all awards granted prior to, but not yet vested as of September 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, and (b) share-based expense for all awards granted subsequent to September 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R).

Share-based expense includes expense related to restricted stock and options issued, as well as share units deferred into either the Director Deferred Compensation Plan or the Supplemental Deferred Savings Plan. The Company recorded $13.0 million, $12.0 million, and $11.1 million of share-based expense in continuing operations for the years ending August 31, 2009, 2008, and 2007, respectively. Amounts recorded for share-based expense in discontinued operations were $2.2 million for the fiscal year ended August 31, 2007. The total income tax benefit recognized in continuing operations for share-based compensation arrangements was $4.3 million, $4.7 million, and $3.9 million for the years ended August 31, 2009, 2008, and 2007, respectively. The total income tax benefit recognized for share-based compensation arrangements in discontinued operations was less than $1 million in fiscal 2007. The Company did not capitalize any expense related to share-based payments and has recorded share-based expense in *Selling, Distribution, and Administrative Expenses*. The Company accounts for any awards with graded vesting on a straight-line basis.

Excess tax benefits of $0.4 million, $5.0 million, and $15.4 million related to share-based compensation were included in financing activities in the Company s *Statements of Cash Flows* for the years ended August 31, 2009, 2008, and 2007, respectively.

See Note 7 *Share-Based Payments* of *Notes to Consolidated Financial Statements* for more information.

Depreciation

For financial reporting purposes, depreciation is determined principally on a straight-line basis using estimated useful lives of plant and equipment (10 to 40 years for buildings and related improvements and 5 to 15 years for machinery and equipment) while accelerated depreciation methods are used for income tax purposes. Leasehold improvements are amortized over the life of the lease or the useful life of the improvement, whichever is shorter. Depreciation expense amounted to $29.6 million, $29.7 million, and $28.1 million during the fiscal 2009, 2008, and 2007, respectively.

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Research and Development

Research and development (R&D) costs, which are included in *Selling, Distribution, and Administrative Expenses* in the Company s *Consolidated Statements of Income*, are expensed as incurred. Research and development expenses amounted to $20.8 million, $30.3 million, and $31.3 million during the fiscal 2009, 2008, and 2007, respectively. The decrease in the fiscal 2009 expense was due primarily to lower incentive compensation associated with R&D associates.

Advertising

Advertising costs are expensed as incurred and are included within *Selling, Distribution, and Administrative Expenses* in the Company s *Consolidated Statements of Income*. These costs totaled $8.7 million during fiscal 2009 and $7.6 million during fiscal 2008 and 2007, respectively.

Service Arrangements with Customers

The Company maintains a service program with one of its retail customers that affords the Company certain in-store benefits, including lighting display maintenance. Costs associated with this program totaled $4.8 million, $5.1 million, and $5.4 million in fiscal 2009, 2008, and 2007, respectively. These costs have been included within the *Selling, Distribution, and Administrative Expenses* line item of the Company s *Consolidated Statements of Income* in accordance with EITF Issue 01-09: *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products).*

Foreign Currency Translation

The functional currency for the foreign operations of the Company is the local currency. The translation of foreign currencies into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet dates and for revenue and expense accounts using a weighted average exchange rate each month during the year. The gains or losses resulting from the translation are included in *Comprehensive Income* in the *Consolidated Statements of Stockholders Equity and Comprehensive Income* and are excluded from net income.

Gains or losses relating to foreign currency items are included in *Miscellaneous expense (income), net* in the *Consolidated Statements of Income* and consisted of expense of $2.1 million, income of $2.3 million, and expense of $0.2 million in fiscal 2009, 2008, and 2007, respectively.

Interest Expense, Net

Interest expense, net, is comprised primarily of interest expense on long-term debt, revolving credit facility borrowings, short-term borrowings, and loans collateralized by assets related to the Acuity Brands company-owned life insurance program, partially offset by interest income on cash and cash equivalents.

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

	Years Ended August 31,		
	2009	**2008**	**2007**
Interest expense	$ 29,556	$ 34,749	$ 34,303
Interest income	(1,014)	(6,334)	(4,452)
Interest expense, net	$ 28,542	$ 28,415	$ 29,851

Interest expense, net related to discontinued operations was zero for fiscal 2009 and $0.3 million for both fiscal 2008 and 2007, respectively.

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Miscellaneous Expense (Income), Net

Miscellaneous expense (income), net, is composed primarily of gains or losses on foreign currency items and other non-operating items.

Accounting Standards Yet to Be Adopted

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R changes accounting for business combinations through a requirement to recognize 100% of the fair values of assets acquired, liabilities assumed, and noncontrolling interests in acquisitions of less than a 100% controlling interest when the acquisition constitutes a change in control of the acquired entity. Other requirements include capitalization of acquired in-process research and development assets, expensing, as incurred, acquisition-related transaction costs and capitalizing restructuring charges as part of the acquisition only if requirements of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* are met. SFAS No. 141R is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and is therefore effective for the Company beginning in fiscal 2010. The implementation of this guidance will affect the Company s results of operations and financial position after its effective date only to the extent it completes applicable business combinations subsequent to the effective date, and therefore, the impact can not be determined at this time.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 establishes the economic entity concept of consolidated financial statements, stating that holders of a residual economic interest in an entity have an equity interest in the entity, even if the residual interest is related to only a portion of the entity. Therefore, SFAS No. 160 requires a noncontrolling interest to be presented as a separate component of equity. SFAS No. 160 also states that once control is obtained, a change in control that does not result in a loss of control should be accounted for as an equity transaction. The statement requires that a change resulting in a loss of control and deconsolidation is a significant event triggering gain or loss recognition and the establishment of a new fair value basis in any remaining ownership interests. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and is therefore effective for the Company beginning in fiscal 2010. The Company does not expect the adoption of SFAS No. 160 to have a material impact on its results of operations and financial position.

In June 2008, FASB issued FASB Staff Position (FSP) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 was issued to clarify that unvested share-based payment awards with a right to receive nonforfeitable dividends are participating securities. FSP EITF 03-6-1 provides guidance on how to allocate earnings to participating securities and compute basic earnings per share (EPS) using the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and is therefore effective for the Company beginning the first quarter of fiscal 2010. The implementation of this guidance will impact the Company s EPS calculation. For example, the Company s diluted EPS for the years ended August 31, 2009, 2008, and 2007, under this guidance would be $2.00, $3.51, and $2.89, respectively, as compared to $2.04, $3.57, and $2.93 reported for these periods.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (SFAS No. 168), which confirms that as of July 1, 2009, the *FASB Accounting Standards Codification™* (Codification) is the single official source of authoritative, nongovernmental U.S. GAAP. All existing accounting standard documents are superseded, and all other accounting literature not included in the

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Codification is considered nonauthoritative. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009 and is therefore effective for the Company at the conclusion of the first quarter of 2010. While the Codification is not intended to change U.S. GAAP and, thus, not expected to have an effect on the Company s financial condition, results of operations, or cash flows upon adoption, the Company is reviewing disclosures due to changes in references to U.S. GAAP literature.

Accounting Standards Adopted in Fiscal 2009

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165), which establishes: the period after the balance sheet date during which an entity should evaluate events or transactions for potential recognition or disclosure in the financial statements; the circumstances under which an entity should recognize such events or transactions in its financial statements; and disclosures regarding such events or transactions and the date through which an entity has evaluated subsequent events.

The provisions of SFAS No. 165 were effective for financial statements issued for interim and annual periods ending after June 15, 2009 and were adopted by the Company on August 31, 2009. The Company determined, however, that SFAS No. 165 did not have an effect on the Company s financial condition, results of operations, or cash flows upon adoption, as its guidance is substantially consistent with that previously applied by the Company.

In April 2009, the FASB issued FSP FAS No. 107-1 and Accounting Principles Board Opinion (APB) No. 28-1, *Interim Disclosures about Fair Value of Financial* Instruments (FSP FAS No. 107-1 and APB 28-1), which requires that the fair value of financial instruments be disclosed in an entity s interim financial statements, as well as in annual financial statements. The provisions of FSP FAS No. 107-1 and APB 28-1 also require that fair value information be presented with the related carrying value and that the method and significant assumptions used to estimate fair value, as well as changes in method and significant assumptions, be disclosed.

The provisions of FSP FAS No. 107-1 and APB 28-1 were effective for interim periods ending after June 15, 2009 and were adopted by the Company on August 31, 2009. As the pronouncement only pertains to additional disclosures, the adoption had no effect on the Company s financial condition, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits companies, at their election, to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the fair value option, will enable some companies to reduce the volatility in reported earnings caused by measuring related assets and liabilities differently, and it is easier than using the complex hedge-accounting requirements in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to achieve similar results. Subsequent changes in fair value for designated items will be required to be reported in earnings in the current period. SFAS No. 159 was effective for financial statements issued for fiscal years beginning after November 15, 2007 and was therefore effective for the Company beginning in fiscal 2009. The Company adopted SFAS No. 159 on September 1, 2008 and elected not to apply the fair value option, and therefore, the adoption did not have an impact on the Company s results of operations or financial position.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158). SFAS No. 158 requires an employer to: (a) recognize in its statement of financial position the funded status of a benefit plan; (b) measure defined benefit plan assets and obligations as of the end of the employer s fiscal year (with limited exceptions); and (c) recognize as a component of other

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comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise but are not recognized as components of net periodic benefit costs pursuant to prior existing guidance. The provisions governing recognition of the funded status of a defined benefit plan and related disclosures became effective and were adopted by the Company at the end of fiscal 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008, and was therefore effective for the Company in fiscal 2009. The change in measurement date to August 31 resulted in a reduction to retained earnings of approximately $0.5 million, net of tax.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 establishes a single authoritative definition of fair value, establishes a framework for measuring fair value, and expands disclosure requirements pertaining to fair value measurements. The provisions of SFAS No. 157 related to financial assets and liabilities as well as other assets and liabilities carried at fair value on a recurring basis were effective for the Company on September 1, 2008. The adoption of these provisions of SFAS No. 157 did not have an impact on the Company s consolidated financial statements. The provisions of SFAS No. 157 related to other nonfinancial assets and liabilities will be effective for the Company on September 1, 2009. The Company does not expect the adoption of these provisions to have a material impact on its results of operations and financial position.

Note 4: Pension and Profit Sharing Plans

Acuity Brands has several pension plans, both qualified and non-qualified, covering certain hourly and salaried employees. Benefits paid under these plans are based generally on employees years of service and/or compensation during the final years of employment. Acuity Brands makes annual contributions to the plans to the extent indicated by actuarial valuations and required by ERISA or foreign regulatory requirements. Plan assets are invested primarily in equity and fixed income securities.

Effective August 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158).

Effective for fiscal 2009, the Company adopted the measurement date provisions of SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). Prior to 2009, the Company measured the funded status of its plans as of May 31 of each year. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008, and is therefore effective for the Company in fiscal 2009. The change in measurement date to August 31 resulted in a reduction to retained earnings of approximately $0.5 million, net of tax.

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The following tables reflect the status of Acuity Brands domestic (U.S. based) and international pension plans at August 31, 2009 and 2008. Activity related to the three-month gap period created by the change in valuation date from May 31 to August 31 is separately identified. The values of the below listed amounts were measured as of August 31, 2009 and August 31, 2008, respectively:

	Domestic Plans August 31,		International Plans August 31,	
	2009	2008	2009	2008
Change in Benefit Obligation:				
Benefit obligation at beginning of year	$ 110,501	$ 110,788	$ 35,867	$ 37,551
Adjustments due to adoption of FAS 158 measurement date provisions:				
Service cost during gap period	620	N/A	13	N/A
Interest cost during gap period	1,662	N/A	459	N/A
Benefits paid during gap period	(1,768)	N/A	(121)	N/A
Service cost	2,480	2,812	52	70
Interest cost	6,649	6,451	1,850	1,980
Actuarial loss (gain)	3,062	(2,977)	(1,093)	663
Curtailment			(11)	
Plan Settlements			(141)	
Benefits paid	(6,859)	(6,573)	(819)	(656)
Plan Amendments	409			
Other			(3,850)	(3,741)
Benefit obligation at end of year	$ 116,756	$ 110,501	$ 32,206	$ 35,867
Change in Plan Assets:				
Fair value of plan assets at beginning of year	$ 92,875	$ 96,190	$ 26,017	$ 29,734
Adjustments due to adoption of FAS 158 measurement date provisions:				
Employer contributions during gap period	607	N/A	268	N/A
Benefits paid during gap period	(1,768)	N/A	(121)	N/A
Actual return on plan assets	(11,576)	237	(2.369)	(1,618)
Employer contributions	2,008	3,021	1,197	1,370
Plan Settlements			(141)	
Benefits paid	(6,859)	(6,573)	(819)	(656)
Other			(2,719)	(2,813)
Fair value of plan assets at end of year	$ 75,287	$ 92,875	$ 21,313	$ 26,017
Funded status at end of year:				
Funded Status	$ (41,469)	$ (17,625)	$ (10,893)	$ (10,110)
Employer contributions from measurement date to fiscal year end	N/A	607	N/A	268
Net amount recognized in Consolidated Balance Sheets	$ (41,469)	$ (17,018)	$ (10,893)	$ (9,842)
Amounts Recognized in the Consolidated Balance Sheets Consist of:				
Non-current assets	$	$ 1,078	$	$
Current liabilities	(1,199)	(1,176)	(37)	(76)
Non-current liabilities	(40,270)	(16,920)	(10,856)	(9,766)
Net amount recognized in Consolidated Balance Sheets	$ (41,469)	$ (17,018)	$ (10,893)	$ (9,842)
Accumulated Benefit Obligation	$ 115,582	$ 108,541	$ 29,794	$ 32,857
Amounts in accumulated other comprehensive income:				
Prior service cost	$ (785)	$ (412)	$	$

Net actuarial loss	(50,525)	(28,039)	(13,771)	(12,340)
Amounts in Accumulated other comprehensive income	$ (51,310)	$ (28,451)	$ (13,771)	$ (12,340)
Estimated amounts that will be amortized from accumulated comprehensive income over the next fiscal year:				
Prior service cost	$ 92	$ 29	$	$
Net actuarial loss	2,725	1,154	1,010	609

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The fair value of plan assets associated with certain of the Company s domestic defined benefit plans did not exceed those plans projected and accumulated benefit obligations in fiscal 2009 and 2008. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for domestic defined benefit pension plans with both projected and accumulated benefit obligations in excess of plan assets were, as of August 31, 2009, $116.8 million, $115.6 million, and $75.3 million, respectively. As of August 31, 2008, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for domestic defined benefit pension plans with both projected and accumulated benefit obligations in excess of plan assets were $90.1 million, $88.2 million, and $71.4 million, respectively. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for international defined benefit pension plans with both projected and accumulated benefit obligations in excess of plan assets were $32.2 million, $29.8 million, and $21.3 million, respectively, as of August 31, 2009, and $35.9 million, $32.9 million, and $26.0 million, respectively, as of August 31, 2008.

Components of net periodic pension cost for the fiscal years ended August 31, 2009, 2008, and 2007 included the following:

	Domestic Plans			International Plans		
	2009	2008	2007	2009	2008	2007
Service cost	$ 2,480	$ 2,812	$ 2,420	$ 52	$ 70	$ 71
Interest cost	6,649	6,451	6,275	1,850	1,980	1,804
Expected return on plan assets	(7,432)	(8,058)	(7,099)	(1,772)	(2,292)	(1,777)
Amortization of prior service cost	29	24	26			
Amortization of transitional asset						
Recognized actuarial loss	1,154	884	1,051	552	373	599
Net periodic pension cost	$ 2,880	$ 2,113	$ 2,673	$ 682	$ 131	$ 697

Weighted average assumptions used in computing the benefit obligation are as follows:

	Domestic Plans		International Plans	
	2009	2008	2009	2008
Discount rate	6.0%	6.3%	5.6%	5.7%
Rate of compensation increase	5.5%	5.5%	4.5%	4.7%

Weighted average assumptions used in computing net periodic benefit cost are as follows:

	Domestic Plans			International Plans		
	2009	2008	2007	2009	2008	2007
Discount rate	6.3%	6.0%	6.3%	5.7%	5.4%	5.0%
Expected return on plan assets	8.3%	8.5%	8.5%	7.4%	7.4%	7.3%
Rate of compensation increase	5.5%	5.5%	5.5%	4.7%	4.1%	3.8%

It is the Company s policy to adjust, on an annual basis, the discount rate used to determine the projected benefit obligation to approximate rates on high-quality, long-term obligations. The Company estimates that each 100 basis point increase in the discount rate would result in reduced net periodic pension cost of approximately $0.8 million for domestic plans. The Company s discount rate used in computing the net periodic benefit cost for its domestic plans increased by 25 basis points in 2009, which contributed to the change in net periodic pension cost associated with those plans. The decrease in service costs associated with the higher discount rate was more than offset by a decrease in expected return on assets due primarily to lower asset balances. The discount rate used in computing the net periodic pension cost for the Company s international plans increased 30 basis points in 2009 over the prior year, resulting in

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lower service and interest costs. This decrease was more than offset by a lower expected return on plan assets due primarily to lower asset balances, resulting in higher overall periodic benefit costs. The expected return on plan assets is derived from a periodic study of long-term historical rates of return on the various asset classes included in the Company s targeted pension plan asset allocation. The Company estimates that each 100 basis point reduction in the expected return on plan assets would result in additional net periodic pension cost of $0.8 million and $0.2 million for domestic plans and international plans, respectively. The rate of compensation increase is also evaluated and is adjusted by the Company, if necessary, annually.

The Company s investment objective for U.S. plan assets is to earn a rate of return sufficient to match or exceed the long-term growth of the Plans liabilities without subjecting plan assets to undue risk. The plan assets are invested primarily in high quality equity and debt securities. The Company conducts a periodic strategic asset allocation study to form a basis for the allocation of pension assets between various asset categories. Specific allocation percentages are assigned to each asset category with minimum and maximum ranges established for each. The assets are then managed within these ranges. During 2009, the U.S. targeted asset allocation was 55% equity securities, 40% fixed income securities, and 5% real estate securities. The Company s investment objective for the international plan assets is also to add value by matching or exceeding the long-term growth of the Plans liabilities. During 2009, the international asset target allocation was 86% equity securities, 12% fixed income securities, and 2% real estate securities.

Acuity Brands pension plan asset allocation at August 31, 2009 and 2008 by asset category is as follows:

	% of Plan Assets			
	Domestic Plans		International Plans	
	2009	2008	2009	2008
Equity securities	52.8%	53.6%	85.8%	84.0%
Fixed income securities	43.0%	40.6%	12.6%	14.1%
Real estate	4.2%	5.8%	1.6%	1.9%
Total	100.0%	100.0%	100.0%	100.0%

The Company expects to contribute approximately $3.1 million and $1.1 million to its domestic and international defined benefit plans, respectively, during 2010. These amounts are based on the total contributions required during 2010 to satisfy current legal minimum funding requirements for qualified plans and estimated benefit payments for non-qualified plans.

Benefit payments are made primarily from funded benefit plan trusts. Benefit payments are expected to be paid as follows for the years ending August 31:

	Domestic	International
2010	$ 6,279	$ 501
2011	6,398	458
2012	6,548	524
2013	6,737	633
2014	6,985	744
2015-2019	40,073	4,821

Acuity Brands also has defined contribution plans to which both employees and the Company make contributions. The cost to Acuity Brands for these plans was $4.3 million in 2009, $5.5 million in 2008, and $5.5 million in 2007. Employer matching amounts are allocated in accordance with the participants investment elections for elective deferrals. At August 31, 2009, assets of the domestic defined

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contribution plans included shares of the Company s common stock with a market value of approximately $5.1 million, which represented approximately 2.8% of the total fair market value of the assets in the Company s domestic defined contribution plans.

Note 5: Debt and Lines of Credit

Debt

The Company s debt at August 31, 2009 and 2008 consisted of the following:

	August 31, 2009	August 31, 2008
6% public notes due February 2009 with an effective interest rate of 6.04%, net of unamortized discount of $17 in 2008	$	$ 159,983
6% unsecured promissory note with quarterly principal payments; matures April 2012	27,605	
8.375% public notes due August 2010 with an effective interest rate of 8.398%, net of unamortized discount of $23 in 2009 and $47 in 2008	199,977	199,953
Industrial revenue bond due 2021	4,000	4,000
	231,582	363,936
Less Amounts payable within one year included in current liabilities	209,535	159,983
	$ 22,047	$ 203,953

Future annual principal payments of long-term debt are as follows for fiscal years ending August 31:

	Amount
2010	$ 209,535
2011	10,144
2012	7,903
2013	
2014	
2015	
Thereafter	4,000
	$ 231,582

Acuity Brands and its principal operating subsidiary, Acuity Brands Lighting, Inc. (ABL) are the obligors of the $200 million public notes. Because the public notes trade infrequently, it is difficult to obtain an accurate fair market value of the notes. The fair value of the $200 million public notes is estimated to approximate $207.8 million at August 31, 2009, based on the discounted future cash flows using rates currently available for debt of similar terms and maturity. As of August 31, 2009, the public notes were guaranteed by the subsidiary, Acuity Brands Lighting, Inc. The guarantee of the subsidiary was full and unconditional and joint and several. Acuity Brands has no independent assets or operations (as defined by Regulation S-X 3-10(h)(5)), and each subsidiary of Acuity Brands, other than Acuity Brands Lighting, Inc., is minor (as defined by Regulation S-X 3-10(h)(6)). Furthermore, there are no significant restrictions on the ability of Acuity Brands or any guarantor to obtain funds from its subsidiaries by dividend or loan.

On April 20, 2009, ABL issued a three-year $30 million 6% unsecured promissory note to the sole shareholder of Sensor Switch, who continued as an employee of the Company upon completion of the acquisition, as partial consideration for the acquisition of Sensor Switch. Scheduled quarterly payments on the note began on July 1, 2009 with the last payment due April 1, 2012. The lender has certain rights to

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accelerate the promissory note should the Company refinance the $200 million public notes. The fair value of the $27.6 million outstanding balance, which represents the carrying value of the promissory note, is estimated to approximate $28.0 million at August 31, 2009, and is based on the discounted future cash flows using rates currently available for debt of similar terms and maturity.

The $4.0 million industrial revenue bond matures in 2021. The industrial revenue bond is a tax-exempt variable-rate instrument that resets on a weekly basis, and, therefore, the face amount of the bond approximates the fair value amount. The interest rates on the $4.0 million bond were approximately 0.5% and 1.9% at August 31, 2009 and 2008, respectively.

Lines of Credit

On October 19, 2007, the Company executed a $250 million revolving credit facility (the Revolving Credit Facility). The Revolving Credit Facility matures in October 2012 and contains financial covenants including a minimum interest coverage ratio and a leverage ratio (Maximum Leverage Ratio) of total indebtedness to EBITDA (earnings before interest, taxes, depreciation and amortization expense), as such terms are defined in the Revolving Credit Facility agreement. These ratios are computed at the end of each fiscal quarter for the most recent 12-month period. The Revolving Credit Facility allows for a Maximum Leverage Ratio of 3.50, subject to certain conditions defined in the financing agreement. The Company was in compliance with all financial covenants and had no outstanding borrowings at August 31, 2009 under the Revolving Credit Facility. At August 31, 2009, the Company had additional borrowing capacity under the Revolving Credit Facility of $242.7 million under the most restrictive covenant in effect at the time, which represents the full amount of the Revolving Credit Facility less outstanding letters of credit of $7.3 million discussed below.

The Revolving Credit Facility bears interest at the option of the borrower based upon either (1) the higher of the JPMorganChase Bank prime rate and the federal funds effective rate plus 0.50%, or (2) the London Inter Bank Offered Rate (LIBOR) plus the Applicable Margin (a margin as determined by Acuity Brands leverage ratio). Based upon Acuity Brands leverage ratio, as defined in the Revolving Credit Facility agreement, the Applicable Margin was 0.41% as of both August 31, 2009 and 2008. During both fiscal 2009 and 2008, commitment fees were computed at a rate of approximately 0.1%, and commitment fees paid during each of those years were approximately $0.2 million.

At August 31, 2009, the Company had outstanding letters of credit totaling $11.5 million, primarily for the purpose of securing collateral requirements under the casualty insurance programs for Acuity Brands and for providing credit support for the Company s industrial revenue bond. At August 31, 2009, a total of $7.3 million of the letters of credit were issued under the Revolving Credit Facility, thereby reducing the total availability under the facility by such amount.

None of the Company s existing debt instruments, neither short-term nor long-term, include provisions that would require an acceleration of repayments based solely on changes in the Company s credit ratings.

Note 6: Common Stock and Related Matters

Stockholder Protection Rights Agreement

The Company s Board of Directors has adopted a Stockholder Protection Rights Agreement (the Rights Agreement). The Rights Agreement contains provisions that are intended to protect the Company s stockholders in the event of an unsolicited offer to acquire the Company, including offers that do not treat all stockholders equally and other coercive, unfair, or inadequate takeover bids and practices that could impair the ability of the Company s Board of Directors to fully represent stockholders interests. Pursuant to the Rights Agreement, the Company s Board of Directors declared a dividend of one Right for each outstanding share of the Company s common stock as of November 16, 2001. The Rights will be

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represented by, and trade together with, the Company s common stock until and unless certain events occur, including the acquisition of 15% or more of the Company s common stock by a person or group of affiliated or associated persons (with certain exceptions, Acquiring Persons). Unless previously redeemed by the Company s Board of Directors, upon the occurrence of one of the specified triggering events, each Right that is not held by an Acquiring Person will entitle its holder to purchase one share of common stock or, under certain circumstances, additional shares of common stock at a discounted price. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company on terms not approved by the Company s Board of Directors. Thus, the Rights are intended to encourage persons who may seek to acquire control of the Company to initiate such an acquisition through negotiation with the Board of Directors.

Common Stock

Changes in common stock for the years ended August 31, 2009, 2008, and 2007 were as follows:

	Common Stock	
	Shares	Amount
	(in thousands)	
Balance, August 31, 2006	48,063	$ 481
Issuance of restricted stock grants, net of forfeitures	(3)	(1)
Stock options exercised	1,263	13
Balance, August 31, 2007	49,323	$ 493
Issuance of restricted stock grants, net of forfeitures	154	2
Stock options exercised	212	2
Balance, August 31, 2008	49,689	$ 497
Issuance of restricted stock grants, net of forfeitures	28	1
Stock options exercised	134	1
Balance, August 31, 2009	49,851	$ 499

Since October 2005, the Company s Board of Directors has authorized the repurchase of ten million shares of the Company s outstanding common stock. At August 31, 2009, the Company had repurchased 9.5 million shares at a cost of $395.5 million. During fiscal 2009, the Company re-issued 2.1 million shares as partial consideration for the acquisitions of Sensor Switch, Inc. and Lighting Controls & Design. The re-issued shares were removed from treasury stock using the FIFO cost method. At fiscal year-end, the remaining 7.4 million repurchased shares were recorded as treasury stock at original repurchase cost of $322.3 million.

Preferred Stock

The Company has 50 million shares of preferred stock authorized, 5 million of which have been reserved for issuance under the Stockholder Protection Rights Agreement. No shares of preferred stock had been issued at August 31, 2009 and 2008.

Earnings per Share

The Company computes earnings per share in accordance with SFAS No. 128, *Earnings per Share*. Under this Statement, basic earnings per share is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed similarly but reflects the potential dilution that would occur if dilutive options were exercised and restricted stock awards were vested. Stock options and restricted stock awards of 333,852 and 509,531, respectively, were excluded from the diluted earnings per share calculation for the year ended August 31, 2009, as the effect of inclusion would have been antidilutive.

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The following table calculates basic earnings per common share and diluted earnings per common share for the years ended August 31, 2009, 2008, and 2007:

	Years Ended August 31, 2009	2008	2007
Basic earnings per share from continuing operations:			
Income from continuing operations	$ 85,197	$ 148,632	$ 128,687
Basic weighted average shares outstanding	40,781	40,655	42,585
Basic earnings per share from continuing operations	$ 2.09	$ 3.66	$ 3.02
Diluted earnings per share from continuing operations:			
Income from continuing operations	$ 85,197	$ 148,632	$ 128,687
Basic weighted average shares outstanding	40,781	40,655	42,585
Common stock equivalents (stock options and restricted stock)	776	954	1,312
Diluted weighted average shares outstanding	41,557	41,609	43,897
Diluted earnings per share from continuing operations	$ 2.05	$ 3.57	$ 2.93
Basic earnings (loss) per share from discontinued operations:			
(Loss) Income from discontinued operations	$ (288)	$ (377)	$ 19,367
Basic weighted average shares outstanding	40,781	40,655	42,585
Basic (loss) earnings per share from discontinued operations	$ (0.01)	$ (0.01)	$ 0.45
Diluted earnings (loss) per share from discontinued operations:			
(Loss) Income from discontinued operations	$ (288)	$ (377)	$ 19,367
Basic weighted average shares outstanding	40,781	40,655	42,585
Common stock equivalents (stock options and restricted stock)	776	954	1,312
Diluted weighted average shares outstanding	41,557	41,609	43,897
Diluted (loss) earnings per share from discontinued operations	$ (0.01)	$ (0.01)	$ 0.44

Note 7: Share-Based Payments

Long-term Incentive and Directors Equity Plans

Effective November 30, 2001, Acuity Brands adopted the Acuity Brands, Inc. Long-Term Incentive Plan (the Plan) for the benefit of officers and other key management personnel. An aggregate of 8.1 million shares was originally authorized for issuance under that plan. In October 2003, the Board of Directors approved the Acuity Brands, Inc. Amended and Restated Long-Term Incentive Plan (the Amended Plan), including an increase of 5.0 million in the number of shares available for grant. However, the Board of Directors subsequently committed that not more than 3.0 million would be available without further shareholder approval. In December 2003, the shareholders approved the Amended Plan. The Amended Plan provides for issuance of share-based awards, including stock options and performance-based and time-based restricted stock awards. The Amended Plan was further amended in October 2007, including the release of the remaining 2.0 million shares and an increase of an additional 500,000 shares. In January 2008, the shareholders approved the Amended Plan. In addition to the Amended Plan, in November 2001, the Company adopted the Acuity Brands, Inc. 2001 Nonemployee Directors Stock Option Plan (the Directors Plan), under which 300,000 shares were authorized for issuance. In January 2007, the Directors Plan was amended to provide that no further annual grants of stock options would be made to nonemployee directors.

Restricted Stock Awards

As of August 31, 2009, the Company had approximately 683,000 shares outstanding of restricted stock to officers and other key employees under the Amended Plan. The shares vest over a four-year period

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and are valued at the closing stock price on the date of the grant. Compensation expense recognized in continuing operations related to the awards under the Amended Plan was $9.0 million, $8.2 million, and $7.0 million in fiscal 2009, 2008, and 2007, respectively. The Company incurred expenses related to the restricted stock held by current and former employees of the Company and Zep at the time of the Spin-off. Compensation expense related to these awards was recognized in discontinued operations and amounted to $1.8 million in fiscal 2007.

Additionally, the Company awarded restricted stock to certain employees on an individual basis based on a number of factors, including individual achievements, additional job responsibilities, relocation, and employee recruitment and retention, in fiscal 2009 and prior years. As of August 31, 2009, approximately 231,000 shares related to these awards were outstanding. Compensation expense recognized in continuing operations related to these awards was $1.6 million, $1.4 million, and $1.1 million in fiscal 2009, 2008, and 2007, respectively. Compensation expense recognized in discontinued operations related to these awards was $0.4 million in fiscal 2007.

Activity related to restricted stock awards during the fiscal year ended August 31, 2009 was as follows:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Outstanding at August 31, 2008	747	$ 41.88
Granted	573	$ 29.92
Vested	(257)	$ 38.55
Forfeited	(149)	$ 40.19
Outstanding at August 31, 2009	914	$ 35.65

As of August 31, 2009, there was $29.0 million of total unrecognized compensation cost related to unvested restricted stock. That cost is expected to be recognized over a weighted-average period of 2.4 years. The total fair value of shares vested during the years ended August 31, 2009 and 2008, was approximately $9.3 million and $17.8 million, respectively.

Stock Options

Options issued under the Plan are generally granted with an exercise price equal to the fair market value of the Company s stock on the date of grant and expire 10 years from the date of grant. These options generally vest and become exercisable over a three-year period. The stock options granted under the Directors Plan vest and become exercisable one year from the date of grant. These options have an exercise price equal to the fair market value of the Company s stock on the date of the grant and expire 10 years from that date. As of August 31, 2009, approximately 120,000 shares had been granted under the Director s Plan. Shares available for grant under all plans were approximately 3.2 million at August 31, 2009. Shares available for grant under all plans were approximately 3.8 million and 1.7 million at August 31, 2008 and 2007. Forfeited shares and shares that are exchanged to offset taxes are returned to the pool of shares available for grant. The Director Stock Option Plan was frozen with respect to future awards effective January 1, 2007.

The fair value of each option was estimated on the date of grant using the Black-Scholes model. The dividend yield was calculated based on annual dividends paid and the trailing 12-month average closing stock price at the time of grant. Expected volatility was based on historical volatility of the Company s stock, calculated using the most recent time period equal to the expected life of the options. The risk-free interest rate was based on the U.S. Treasury yield for a term equal to the expected life of the options at the time of grant. The Company used historical exercise behavior data of similar employee groups to

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determine the expected life of options. All inputs into the Black-Scholes model are estimates made at the time of grant. Actual realized value of each option grant could materially differ from these estimates, without impact to future reported net income.

The following weighted average assumptions were used to estimate the fair value of stock options granted in the fiscal years ended August 31:

	2009	2008	2007
Dividend yield	1.2 - 1.4%	1.1%	1.6%
Expected volatility	40.1 - 40.3%	36.4%	35.0%
Risk-free interest rate	1.9 - 2.6%	4.0%	4.6%
Expected life of options	5 years	5 years	5 years
Weighted-average fair value of options granted	$7.53 - $11.13	$13.90	$15.01

In addition to the options granted as a part of the annual incentive award, the Board of Directors approved a supplemental option grant related to the assumption of additional duties by certain executives and key employees which was granted in April 2009. As a result, the assumptions used in 2009 are reflected as a range of values.

Stock option transactions for the stock option plans and stock option agreements during the years ended August 31, 2009, 2008, and 2007 were as follows:

	Outstanding			Exercisable		
	Number of Shares	Weighted Average Exercise Price		Number of Shares	Weighted Average Exercise Price	
	(share data in thousands)			(share data in thousands)		
Outstanding at August 31, 2006	2,656	$	22.78	2,028	$	21.31
Granted	155	$	45.62			
Exercised	(1,298)	$	21.50			
Cancelled	(15)	$	31.30			
Outstanding at August 31, 2007	1,498	$	26.18	1,196	$	23.08
Spin Conversion	194	$	21.69			
Granted	166	$	40.29			
Exercised	(211)	$	19.67			
Cancelled	(49)	$	25.42			
Outstanding at August 31, 2008	1,598	$	23.78	1,283	$	20.26
Granted	278	$	29.21			
Exercised	(134)	$	20.34			
Cancelled	(44)	$	33.59			
Outstanding at August 31, 2009	1,698	$	24.69	1,289	$	22.09
Range of option exercise prices:						
$10.00 $15.00 (average life 1.9 years)	364	$	12.14	364	$	12.14
$15.01 $20.00 (average life 3.5 years)	172	$	19.44	172	$	19.44
$20.01 $25.00 (average life 5.7 years)	382	$	22.23	298	$	22.05
$25.01 $30.00 (average life 4.9 years)	257	$	26.05	257	$	26.05
$30.01 $40.00 (average life 7.9 years)	523	$	36.29	198	$	37.62

The total intrinsic value of options exercised during the years ended August 31, 2009 and 2008 was $5.6 million and $9.7 million, respectively. As of August 31, 2009, the total intrinsic value of options outstanding and expected to vest were each $14.8 million, and the total intrinsic value of options exercisable was $14.0 million. As of August 31, 2009, there was $2.9 million of total unrecognized compensation cost related to unvested options. That cost is expected to be recognized over a weighted-average period of approximately 1.7 years.

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Employee Stock Purchase Plan

Employees are able to purchase, through payroll deduction, common stock at a 5% discount on a monthly basis. There were 1.5 million shares of the Company s common stock reserved for purchase under the plan, of which approximately 1.1 million shares remain available as of August 31, 2009. Employees may participate at their discretion.

Share Units

The Company requires its Directors to defer at least 50% of their annual retainer into the Directors Deferred Compensation Plan. Under this plan, until June 29, 2006, the deferred cash was converted into share units using the average of the high and low prices for the five days prior to the deferral date. The share units were adjusted to current market value each month and earned dividend equivalents. Upon retirement, the Company distributed cash to the retiree in a lump sum or five annual installments. The distribution amount was calculated as share units times the average of the high and low prices for the five days prior to distribution (defined as fair market value in the Directors Deferred Compensation Plan). On June 29, 2006, the Board of Directors amended this plan to convert existing share units and future deferrals to cash-based, interest bearing deferrals at fair market value or stock-based deferrals, with distribution only in the elected form upon retirement. Existing share deferrals were valued at the fair market value at the date of election and future share deferrals will be calculated at fair market value at the date of the deferral and will no longer vary with fluctuations in the Company s stock price. As of August 31, 2009, approximately 175,000 share units were accounted for in this plan.

Additionally, the Company allowed employees to defer a portion of restricted stock awards granted in fiscal 2003 and fiscal 2004 into the Supplemental Deferred Savings Plan as share units. Those share units were adjusted to the current market value at the end of each month. On June 29, 2006, the Board of Directors amended this plan to distribute those share unit deferrals in stock rather than cash. The shares were valued at the closing stock price on the date of conversion and expense related to these shares will no longer vary with fluctuations in the Company s stock price. As of August 31, 2009 approximately 60,000 fully vested share units were accounted for in this plan.

Treatment of Stock Options, Restricted Stock Awards, and Restricted Stock Units pursuant to the Spin-off of Zep

The employee benefits agreement entered into between Acuity Brands, Inc. and Zep Inc. provided that at the time of the Spin-off, Acuity Brands stock options held by Zep s current employees (but not former employees) were generally converted to, and replaced by, Zep stock options in accordance with a conversion ratio such that the intrinsic value of the underlying awards remains unaffected by the Spin-off. The employee benefits agreement also provided that, at the time of the Spin-off, Acuity Brands stock options held by current and former Acuity Brands employees and former Zep employees were adjusted with regard to the exercise price of and number of Acuity Brands shares underlying the Acuity Brands stock options to maintain the intrinsic value of the options, pursuant to the applicable Acuity Brands long-term incentive plan.

Each of the current and former employees of Acuity Brands and Zep holding unvested shares of restricted stock of Acuity Brands received a dividend of one share of Zep restricted stock for each two shares of Acuity Brands unvested restricted stock held. The shares of Zep stock received as a dividend are subject to the same restrictions and terms as the Acuity Brands restricted stock. The shares of Zep common stock were fully paid and non-assessable and the holders thereof are not entitled to preemptive rights.

Effective immediately after the Spin-off of the specialty products business, the number of shares represented by restricted stock units were converted in the same manner as the above mentioned stock option awards.

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Note 8: Commitments and Contingencies

Self-Insurance

It is the policy of Acuity Brands to self-insure, up to certain limits, traditional risks including workers compensation, comprehensive general liability, and auto liability. The Company s self-insured retention for each claim involving workers compensation, comprehensive general liability (including product liability claims), and auto liability is limited to $0.5 million per occurrence of such claims. A provision for claims under this self-insured program, based on the Company s estimate of the aggregate liability for claims incurred, is revised and recorded annually. The estimate is derived from both internal and external sources including but not limited to the Company s independent actuary. Acuity Brands is also self-insured up to certain limits for certain other insurable risks, primarily physical loss to property ($0.5 million per occurrence) and business interruptions resulting from such loss lasting three days or more in duration. Insurance coverage is maintained for catastrophic property and casualty exposures as well as those risks required to be insured by law or contract. Acuity Brands is fully self-insured for certain other types of liabilities, including employment practices, environmental, product recall, and patent infringement. The actuarial estimates are subject to uncertainty from various sources, including, among others, changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. Although Acuity Brands believes that the actuarial estimates are reasonable, significant differences related to the items noted above could materially affect the Company s self-insurance obligations, future expense and cash flow. The Company is also self-insured for the majority of its medical benefit plans. The Company estimates its aggregate liability for claims incurred by applying a lag factor to the Company s historical claims and administrative cost experience. The appropriateness of the Company s lag factor is evaluated and revised annually, as necessary.

Leases

Acuity Brands leases certain of its buildings and equipment under noncancelable lease agreements. Minimum lease payments under noncancelable leases for years subsequent to August 31, 2009, are $14.4 million, $12.7 million, $9.3 million, $6.0 million, $3.0 million, and $3.1 million for fiscal 2010, 2011, 2012, 2013, 2014, and after 2015, respectively.

Total rent expense was $18.2 million, $18.8 million, and $18.7 million in fiscal 2009, 2008, and 2007, respectively.

Purchase Obligations

The Company has incurred purchase obligations in the ordinary course of business that are enforceable and legally binding. Obligations for years subsequent to August 31, 2009 include $81.7 million and $0.6 million in fiscal 2010 and 2011, respectively. As of August 31, 2009, the Company had no purchase obligations extending beyond August 31, 2011.

Collective Bargaining Agreements

Approximately 57% of the Company s total work force is covered by collective bargaining agreements. Collective bargaining agreements representing approximately 34% of the Company s work force will expire within one year.

Litigation

Acuity Brands is subject to various legal claims arising in the normal course of business, including patent infringement and product liability claims. Acuity Brands is self-insured up to specified limits for certain types of claims, including product liability, and is fully self-insured for certain other types of claims,

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including environmental, product recall, and patent infringement. Based on information currently available, it is the opinion of management that the ultimate resolution of pending and threatened legal proceedings will not have a material adverse effect on the financial condition, results of operations, or cash flows of Acuity Brands. However, in the event of unexpected future developments, it is possible that the ultimate resolution of any such matters, if unfavorable, could have a material adverse effect on the financial condition, results of operations, or cash flows of Acuity Brands in future periods. Acuity Brands 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 than the amounts reserved for such claims. However, the Company cannot make a meaningful estimate of actual costs to be incurred that could possibly be higher or lower than the amounts reserved.

Environmental Matters

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

Guarantees and Indemnities

The Company is a party to contracts entered into in the normal course of business in which it is common for the Company to agree to indemnify third parties for certain liabilities that may arise out of or relate to the subject matter of the contract. In most cases, the Company cannot estimate the potential amount of future payments under these indemnities until events arise that would result in a liability under the indemnities. In connection with the sale of assets and the divestiture of businesses, the Company has from time to time agreed to indemnify the purchaser from liabilities relating to events occurring prior to the sale and conditions existing at the time of the sale. The indemnities generally include potential environmental liabilities, general representations and warranties concerning the asset or business, and certain other liabilities not assumed by the purchaser. Indemnities associated with the divestiture of businesses are generally limited in amount to the sales price of the specific business or are based on a lower negotiated amount and expire at various times, depending on the nature of the indemnified matter, but in some cases do not expire until the applicable statute of limitations expires. The Company does not believe that any amounts that it may be required to pay under these indemnities will be material to the Company s results of operations, financial position, or cash flow.

In conjunction with the separation of their businesses (the Distribution), Acuity Brands and Zep entered into various agreements that addressed the allocation of assets and liabilities and defined the Company s relationship with Zep after the Distribution, including a distribution agreement and a tax disaffiliation agreement. The distribution agreement provides that Acuity Brands will indemnify Zep for liabilities related to the businesses that comprise Acuity Brands. The tax disaffiliation agreement provides that Acuity Brands will indemnify Zep for certain taxes and liabilities that may arise related to the Distribution and, generally, for deficiencies, if any, with respect to federal, state, local, or foreign taxes of Zep for periods before the Distribution. Liabilities determined under the tax disaffiliation agreement terminate upon the expiration of the applicable statutes of limitation for such liabilities. There is no stated maximum potential liability included in the tax disaffiliation agreement or the distribution agreement. The Company does not

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believe that any amounts it is likely to be required to pay under these indemnities will be material to the Company s results of operations, financial position, or liquidity. The Company cannot estimate the potential amount of future payments under these indemnities because claims that would result in a liability under the indemnities are not fully known.

Product Warranty and Recall Costs

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

The changes in product warranty and recall reserves (included in *Other accrued liabilities* on the *Consolidated Balance Sheets)* during the fiscal years ended August 31, 2009 and 2008 are summarized as follows:

	2009	2008
Balance, beginning of year	$ 4,888	$ 4,393
Adjustments to warranty and recall reserve	2,736	6,190
Payments made during the year	(4,229)	(5,695)
Balance, end of year	$ 3,395	$ 4,888

The decrease in the product warranty and recall reserve in fiscal 2009 was due primarily to reserves for certain specifically identified issues and warranty costs related to faulty components provided by third parties during fiscal 2008 which was not repeated in fiscal 2009.

Note 9: Special Charge

Fiscal 2009 Special Charge

On October 6, 2008, the Company announced plans to accelerate its ongoing programs to streamline operations including the consolidation of certain manufacturing facilities and the reduction of certain overhead costs. These actions are expected to allow the Company to better leverage efficiencies in its supply chain and support areas, while funding continued investments in other areas that support future growth opportunities. During fiscal 2009, the Company recorded a pre-tax charge of $26.7 million, or $0.41 per diluted share. The $26.7 million pre-tax charge consists of $25.6 million for estimated severances and employee benefits as well as estimated retention payments related to the previously announced consolidation of certain manufacturing operations and reductions in workforce and a $1.6 million impairment of assets related to the closing of a manufacturing facility, partially offset by a $0.5 million adjustment to the fiscal 2008 special charge.

The changes in the reserves related to the 2009 program during the twelve months ended August 31, 2009 are summarized as follows:

	Severance
Balance as of August 31, 2008	$
Special charge	25,221
Payments made during the period	(14,253)
Balance as of August 31, 2009	$ 10,968

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Fiscal 2008 Special Charge

During fiscal 2008, the Company recorded a pre-tax charge of $14.6 million, or $0.21 per diluted share, for actions to streamline and simplify the Company s organizational structure and operations as a result of the Spin-off of Zep Inc. The charge consisted of severance and related employee benefit costs associated with the elimination of certain positions worldwide, the estimated costs associated with the early termination of certain leases, and $0.8 million of share-based expense due to the modification of the terms of agreements to accelerate vesting for certain terminated employees.

The changes in the reserves related to these programs during the twelve months ended August 31, 2009 are summarized as follows:

	Severance	Exit Costs
Balance as of August 31, 2008	$ 3,409	$ 1,848
Special charge adjustment	(120)	(380)
Payments made during the period	(3,289)	(600)
Balance as of August 31, 2009	$	$ 868

Note 10: Acquisitions

On April 20, 2009, the Company acquired 100% of the outstanding capital stock of Sensor Switch, an industry-leading developer and manufacturer of lighting controls and energy management systems. Sensor Switch, based in Wallingford, Connecticut, offers a wide-breadth of products and solutions that substantially reduce energy consumption including occupancy sensors, photocontrols, and distributed lighting control devices. Total consideration for the purchase was approximately $205 million consisting of 2 million shares of Acuity Brands common stock, a $30 million unsecured promissory note payable over three years, and approximately $130 million of cash. The cash payment was funded from available cash on hand and from borrowings under the Company s existing Revolving Credit Facility. The operating results of Sensor Switch have been included in the Company s consolidated financial statements since the date of acquisition. Management finalized the purchase price allocation during fiscal 2009 and the amounts are reflected in the *Consolidated Balance Sheets* as of August 31, 2009. Pro forma results and other expanded disclosures required by SFAS No. 141, *Business Combinations* (SFAS No. 141), have not been presented as the purchase of Sensor Switch does not represent a material acquisition.

On December 31, 2008, the Company acquired for cash and stock substantially all the assets and assumed certain liabilities of LC&D. Located in Glendale, California, LC&D is a manufacturer of comprehensive digital lighting controls and software that offers a breadth of products, ranging from dimming and building interfaces to digital thermostats, all within a single, scalable system. The operating results of LC&D have been included in the Company s consolidated financial statements since the date of acquisition. Management finalized the purchase price allocation during fiscal 2009 and the amounts are reflected in the *Consolidated Balance Sheets* as of August 31, 2009. Pro forma results and other expanded disclosures required by SFAS No. 141 have not been presented as the purchase of LC&D does not represent a material acquisition.

On May 7, 2008, Acuity Brands acquired substantially all the assets of Guardian Networks LLC (Guardian). Located in Kennesaw, Georgia, Guardian is a leading provider of remote asset management software and service that enable utility, municipal, and other customers to efficiently monitor and manage facility and infrastructure assets such as lighting systems. The operating results of Guardian have been included in the Company s consolidated financial statements since the date of acquisition. Management finalized the purchase price allocation during the fiscal 2008 and the amounts are reflected in the *Consolidated Balance Sheets* as of August 31, 2008. Pro forma results and other expanded disclosures required by SFAS No. 141 have not been presented as the purchase of Guardian does not represent a material acquisition.

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On July 17, 2007, Acuity Brands acquired substantially all the assets and assumed certain liabilities of Mark Architectural Lighting. Located in Edison, New Jersey, Mark Architectural Lighting is a specification-oriented manufacturer of high-quality lighting products which generated fiscal 2006 sales of over $22 million. The operating results of Mark Architectural Lighting have been included in the Company s consolidated financial statements since the date of acquisition. Management finalized the purchase price allocation during fiscal 2008 and the amounts are reflected in the *Consolidated Balance Sheets* as of August 31, 2008. Pro forma results and other expanded disclosures required by SFAS No. 141, *Business Combinations*, have not been presented as the purchase of Mark Architectural Lighting does not represent a material acquisition.

Note 11: Income Taxes

The Company accounts for income taxes using the asset and liability approach as prescribed by SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Using the enacted tax rates in effect for the year in which the differences are expected to reverse, deferred tax liabilities and assets are determined based on the differences between the financial reporting and the tax basis of an asset or liability.

The provision for income taxes consists of the following components:

	Years Ended August 31,		
	2009	**2008**	**2007**
Provision for current federal taxes	$ 35,140	$ 62,045	$ 56,405
Provision for current state taxes	4,231	7,255	5,229
Provision for current foreign taxes	3,580	5,290	5,620
(Benefit)/Provision for deferred taxes	(825)	7,328	(1,755)
Total provision for income taxes	$ 42,126	$ 81,918	$ 65,499

A reconciliation of the federal statutory rate to the total provision for income taxes is as follows:

	Years Ended August 31,		
	2009	**2008**	**2007**
Federal income tax computed at statutory rate	$ 44,562	$ 80,694	$ 67,965
State income tax, net of federal income tax benefit	2,448	4,704	3,347
Foreign permanent differences and rate differential	(804)	(1,466)	(1,382)
Tax (benefit) on repatriation of foreign earnings	(381)	1,018	(1,488)
Other, net	(3,699)	(3,032)	(2,943)
Total provision for income taxes	$ 42,126	$ 81,918	$ 65,499

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Components of the net deferred income tax asset at August 31, 2009 and net deferred tax liability at August 31, 2008 include:

	August 31, 2009	August 31, 2008
Deferred Income Tax Liabilities:		
Depreciation	$ (3,595)	$ (5,267)
Goodwill and intangibles	(54,612)	(52,663)
Other liabilities	(1,217)	(1,707)
Total deferred income tax liabilities	(59,424)	(59,637)
Deferred Income Tax Assets:		
Self-insurance	4,713	5,295
Pension	18,788	7,560
Deferred compensation	26,523	27,705
Bonuses	58	1,295
Other accruals not yet deductible	14,683	12,635
Other assets	1,032	1,641
Total deferred income tax assets	65,797	56,131
Net deferred income tax asset (liability)	$ 6,373	$ (3,506)

Acuity Brands currently intends to indefinitely reinvest all undistributed earnings of and original investments in foreign subsidiaries, which amounted to approximately $30.2 million at August 31, 2009; however, this amount could fluctuate due to changes in business, economic, or other conditions. If these earnings were distributed to the U.S. in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, the Company would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. Determination of the amount of unrecognized deferred income tax liability related to these earnings or investments is not practicable.

At August 31, 2009 and August 31, 2008, no valuation allowances on deferred tax assets were deemed necessary. Typically, these allowances are required to reflect the net realizable value of state tax credit carryforwards.

At August 31, 2009 the Company has state tax credit carryforwards of approximately $0.5 million, which will expire between 2013 and 2018.

As described in Note 3 *Summary of Significant Accounting Policies*, Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48), is effective for fiscal years beginning after December 15, 2006 and was adopted by the Company on September 1, 2007. The cumulative effect of adopting FIN 48 was not material. The amount of gross unrecognized tax benefits as of the date of the adoption was approximately $6.9 million of which approximately $5.7 million, if recognized, would affect the effective tax rate. The gross amount of unrecognized tax benefits as of August 31, 2009 totaled $7.2 million, which includes $5.9 million of net unrecognized tax benefits that, if recognized, would affect the annual effective tax rate. The Company recognizes potential interest and penalties related to unrecognized tax benefits as a component of income tax expense; such accrued interest and penalties are not material. With few exceptions, the Company is no longer subject to United States federal, state and local income tax examinations for years ended before 2006 or for foreign income tax examinations before 2004. The Company does not anticipate unrecognized tax benefits will significantly increase or decrease within the next twelve months.

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A reconciliation of the change in the unrecognized income tax benefit reported in Other long-term liabilities for the year ended August 31, 2009 is as follows:

	August 31, 2009
Unrecognized tax benefits balance at September 1, 2008	$ 6,872
Additions based on tax positions related to the current year	410
Additions for tax positions of prior years	545
Reductions for tax positions of prior years	(21)
Reductions due to settlements	(339)
Reductions due to lapse of statute of limitations	(236)
Unrecognized tax benefits balance at August 31, 2009	$ 7,231

During fiscal 2009, the Company decreased its interest accrual associated with uncertain tax positions by approximately $0.1 million. Total accrued interest as of August 31, 2009 was $0.9 million. There were no penalty accruals during fiscal 2009. Interest, net of tax benefit, and penalties are included in tax expense. The classification of interest and penalties did not change as a result of our adoption of FIN 48.

Note 12: Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through October 29, 2009, which is the date the financial statements as of August 31, 2009 and for the twelve months ended August 31, 2009 were issued.

Note 13: Fair Value Measurements

In accordance with SFAS No. 157, Acuity Brands determines a fair value measurement based on the assumptions a market participant would use in pricing an asset or liability. SFAS No. 157 established a three level hierarchy making a distinction between market participant assumptions based on (i) unadjusted quoted prices for identical assets or liabilities in an active market (Level 1), (ii) quoted prices in markets that are not active or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability (Level 2), and (iii) prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement (Level 3). The following table presents information about assets and liabilities required to be carried at fair value on a recurring basis as of August 31, 2009:

		Fair Value Measurements as of August 31, 2009 using:		
	Fair Value as of August 31, 2009	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 18,683	$ 18,683	$	$
Long-term investments(1)	4,734	4,734		
Liabilities:				
Deferred compensation plan(2)	$ 4,734	$ 4,734	$	$

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

(2) The Company maintains a self-directed, non-qualified deferred compensation plan structured as a rabbi trust primarily for certain retired executives and other highly compensated employees.

Note: Fair value information on assets and liabilities not carried at fair value are included in Note 2 for Investments in nonconsolidating affiliates and Note 5 for Debt.

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The Company utilizes valuation methodologies to determine the fair values of its financial assets and liabilities in conformity with the concepts of exit price and the fair value hierarchy as prescribed in SFAS No. 157. All valuation methods and assumptions are validated at least quarterly to ensure the accuracy and relevance of the fair values. There were no material changes to the valuation methods or assumptions used to determine fair values during the current period.

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

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

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

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

The Company does not possess any assets or liabilities that are carried at fair value on a recurring basis classified as Level 3 assets or liabilities.

Note 14: Geographic Information

The Company has one operating segment. The geographic distribution of the Company s net sales, operating profit, income from continuing operations before provision for income taxes, and long-lived assets is summarized in the following table for the years ended August 31:

	2009	2008	2007
Net sales[(1)]			
Domestic[(2)]	$ 1,479,747	$ 1,804,628	$ 1,758,383
International	177,657	222,016	206,398
	$ 1,657,404	$ 2,026,644	$ 1,964,781
Operating profit			
Domestic[(2)]	$ 139,013	$ 242,502	201,485
International	14,740	18,558	20,938
	$ 153,753	$ 261,060	$ 222,423
Income from Continuing Operations before Provision for Income Taxes			
Domestic[(2)]	$ 111,354	$ 212,975	$ 173,219
International	15,969	17,575	20,967
	$ 127,323	$ 230,550	$ 194,186
Long-lived assets[(3)]			
Domestic[(2)]	$ 140,107	$ 138,979	$ 145,333
International	32,207	41,940	43,270
	$ 172,314	$ 180,919	$ 188,603

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(1) Net sales are attributed to each country based on the selling location.
(2) Domestic amounts include net sales (including export sales), operating profit, income from continuing operations before provision for income taxes, and long-lived assets for U.S. based operations.
(3) Long-lived assets include net property, plant, and equipment, defined benefit plan intangible assets, long-term deferred income tax assets, and other long-term assets for continuing operations.

Note 15: Quarterly Financial Data (Unaudited)

	Fiscal Year 2009				Fiscal Year 2008			
	1st Quarter[1]	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter[2]	2nd Quarter	3rd Quarter	4th Quarter
Net Sales	$ 452,025	$ 386,139	$ 396,628	$ 422,611	$ 508,865	$ 482,584	$ 512,438	$ 522,757
Gross Profit	174,723	141,398	153,605	165,370	203,189	192,036	208,192	212,378
Income from Continuing Operations	19,415	14,368	22,326	29,086	30,925	34,144	41,658	41,906
Income (Loss) from Discontinued Operations			(299)	10	147		(525)	
Net Income	$ 19,415	$ 14,368	$ 22,027	$ 29,096	$ 31,072	$ 34,144	$ 41,133	$ 41,906
Basic Earnings per Share from Continuing Operations	$ 0.49	$ 0.36	$ 0.55	$ 0.69	$ 0.74	$ 0.84	$ 1.04	$ 1.05
Basic Earnings per Share from Discontinued Operations			(0.01)	0.00	0.00		(0.01)	
Basic Earnings per Share	$ 0.49	$ 0.36	$ 0.54	$ 0.69	$ 0.74	$ 0.84	$ 1.03	$ 1.05
Diluted Earnings per Share from Continuing Operations	$ 0.48	$ 0.35	$ 0.54	$ 0.68	$ 0.72	$ 0.82	$ 1.01	$ 1.02
Diluted Earnings per Share from Discontinued Operations			(0.01)	0.00	0.00		(0.01)	
Diluted Earnings per Share	$ 0.48	$ 0.35	$ 0.53	$ 0.68	$ 0.72	$ 0.82	$ 1.00	$ 1.02

(1) Income from Continuing Operations, Net Income, Basic Earnings per Share from Continuing Operations, and Diluted Earnings per Share from Continuing Operations for fiscal 2009 include a pre-tax special charge of $26.7 million ($16.8 million after-tax), or $0.41 per share for estimated costs the company incurred to simplify and streamline its operations.
(2) Income from Continuing Operations, Net Income, Basic Earnings per Share from Continuing Operations, and Diluted Earnings per Share from Continuing Operations for the first quarter of fiscal 2008 include a pre-tax special charge of $14.6 million ($9.1 million after-tax), or $0.21 per share for estimated costs the company incurred to simplify and streamline its operations as a result of the Spin-off.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9a. ***Controls and Procedures***

Disclosure controls and procedures are controls and other procedures that are designed to reasonably ensure that information required to be disclosed in the reports filed or submitted by the Company under the Securities Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission s (SEC) rules and forms. Disclosure controls and

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procedures include, without limitation, controls and procedures designed to reasonably ensure that information required to be disclosed by the Company in the reports filed under the Securities Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As required by SEC rules, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of August 31, 2009. This evaluation was carried out under the supervision and with the participation of management, including the principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of the Company s disclosure controls and procedures are effective at a reasonable assurance level. However, because all disclosure procedures must rely to a significant degree on actions or decisions made by employees throughout the organization, such as reporting of material events, the Company and its reporting officers believe that they cannot provide absolute assurance that all control issues and instances of fraud or errors and omissions, if any, within the Company will be detected. Limitations within any control system, including the Company s control system, include faulty judgments in decision-making or simple errors or mistakes. In addition, controls can be circumvented by an individual, by collusion between two or more people, or by management override of the control. Because of these limitations, misstatements due to error or fraud may occur and may not be detected.

Management s annual report on the Company s internal control over financial reporting and the independent registered public accounting firm s attestation report are included in the Company s 2009 Financial Statements in Item 8 of this Annual Report on Form 10-K, under the headings, Management s Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting , respectively, and are incorporated herein by reference.

There have been no changes in the Company s internal control over financial reporting that occurred during the Company s most recent completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

CEO and CFO Certifications

The Company s Chief Executive Officer as well as the Chief Financial Officer have filed with the Securities and Exchange Commission the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31(a) and 31(b) to the Company s Annual Report on Form 10-K for the fiscal year ended August 31, 2009. In addition, on February 9, 2009, the Company s CEO certified to the New York Stock Exchange that he was not aware of any violation by the Company of the NYSE corporate governance listing standards.

Item 9b. ***Other Information***

Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On October 26, 2009, the Compensation Committee of the Board of Directors of the Corporation approved certain amendments to compensatory arrangements with certain executive officers of the Corporation.

Fiscal 2010 Long-Term Incentive Plan

The Compensation Committee adopted plan rules for potential equity awards to be earned by executive officers for performance during fiscal year 2010 under the Corporation s Long-Term Incentive Plan. The plan rules for each executive officer consist of an individual target percentage, stated as a percentage of

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gross salary, multiplied by a financial performance payout percentage. The financial performance payout percentage for Messrs. Nagel, Reece, and Black is subject to the application of negative discretion by the Committee.

The target award is based on the achievement of a specified target for Adjusted Diluted Earnings per Share, which excludes the impact of: (a) special charges associated with streamlining efforts and asset impairments; (b) capital market pre-financing and/or early pay-off of the $200 million public notes due in 2010; (c) the adoption of the Financial Accounting Standards Board Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*; and (d) the distortive effect of acquisitions. The actual award earned increases above target or decreases below target based on the level of achievement of the specified target for Adjusted Diluted Earnings per Share, with no award earned if financial performance is below a specified threshold level. Achievement of the performance level is determined by the Compensation Committee following the completion of the fiscal year, subject to the application of negative discretion by the Committee for the executives noted above. Awards are granted following completion of the fiscal year.

The individual target percentage and the financial performance payout target percentage for the named executive officers in the proxy statement for the annual meeting to be held on January 8, 2010 are as follows:

	Individual Target %	Financial Performance Payout Target %
Vernon J. Nagel	300%	200%
Richard K. Reece	150%	200%
Mark A. Black	135%	200%
Jeremy M. Quick	90%	100%
C. Dan Smith	60%	100%

Fiscal 2010 Annual Incentive Plan

The Compensation Committee adopted plan rules for potential cash bonuses to be earned by executive officers for fiscal year 2010 under the Corporation s Management Compensation and Incentive Plan. The plan rules for each executive officer consists of an individual target percentage, stated as a percentage of gross salary, multiplied by a financial performance payout percentage. The target bonus is based on achievement of specified financial performance measures and the actual bonus earned increases above target or decreases below target based on the level of achievement of the financial performance measures, with no bonus payable if financial performance is below a specified threshold level. Achievement of performance levels is determined by the Compensation Committee following the completion of the fiscal year.

The performance measures consist of specified targets for:

Executive Officers of Acuity Brands, Inc.

Adjusted Diluted Earnings per Share, computed by dividing net income by diluted weighted average number of shares and adjusted to exclude the impact of: (a) special charges associated with streamlining efforts and asset impairments, if any; (b) capital market pre-financing and/or early pay-off of the $200 million public notes due in 2010; (c) the adoption of the Financial Accounting Standards Board Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*; and (d) the distortive effect of acquisitions;

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Adjusted Consolidated Operating Profit Margin, calculated as earnings before interest and taxes divided by net sales and adjusted to exclude the impact of special charges associated with streamlining efforts and asset impairments and the distortive effect of acquisitions; and

Cash Flow, calculated as cash flow from operations, less capital expenditures, plus cash received on sale of property of business, plus or minus cash flow from foreign currency fluctuations, and excluding cash used for acquisitions.

Executive Officers of Acuity Brands Lighting, Inc.

Business Unit Operating Profit, excluding the impact of special charges associated with streamlining efforts and asset impairments and the distortive effect of acquisitions, if any;

Business Unit Operating Profit Margin, calculated as operating profit (as defined above) divided by net sales; and

Business Unit Cash Flow, calculated as cash flow from operations, less capital expenditures, plus cash received on sale of property of business, plus or minus cash flow from foreign currency fluctuations, and excluding cash used for acquisitions.

The bonus award for Messrs. Nagel, Reece, and Black is subject to the application of negative discretion by the Committee. The individual target percentage and the financial performance payout target percentage for the named executive officers in the proxy statement for the annual meeting to be held on January 8, 2010 are as follows:

	Individual Target %	**Financial Performance Payout Target %**
Vernon J. Nagel	150%	200%
Richard K. Reece	65%	200%
Mark A. Black	65%	200%
Jeremy M. Quick	55%	100%
C. Dan Smith	40%	100%

Supplemental Executive Retirement Plan

The Compensation Committee approved the eligibility of Mark A. Black, Executive Vice President of Acuity Brands Lighting, Inc., as a participant in the Acuity Brands, Inc. 2002 Supplemental Executive Retirement Plan (Plan) effective October 26, 2009. As a Plan participant, Mr. Black is eligible for a monthly benefit payable for 180 months only, commencing on the his normal retirement date in an amount equal to the product of 1.8% of his average annual compensation, as defined in the Plan, multiplied by his years of credited service up to a maximum of 10 years, divided by 12. The maximum number of years of credited service that Mr. Black can accrue under the Plan is 10 years, provided that compensation earned after he has completed 10 years of credited service shall be counted for purposes of determining his Plan benefit, if counting such compensation would increase his Plan benefit. Mr. Black s compensation for periods prior to his participation date in the Plan shall count for purposes of calculating his Plan benefit and that his service with the Corporation since September 1, 2006 shall be deemed credited service for purposes of calculating his Plan benefit.

Severance Agreements

The Compensation Committee approved amendments to the Severance Agreements for executive officers of the Corporation. The amendments were made to comply with certain interpretations of Section 162(m) of the Internal Revenue Code and to eliminate the application of negative discretion for

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Messrs. Nagel, Reece, and Black. The amendments eliminate the reference to the payment of an annual cash bonus at target and are replaced by the payment of a cash amount equal to the executive s gross salary multiplied by a specified percentage. In addition, for Messrs. Nagel, Reece, and Black, the amendments reduce the potential payout for the annual incentive bonus by 50% and eliminate the application of negative discretion by the Compensation Committee in determining such amounts. The amendments to the Severance Agreements are attached to this Form 10-K as Exhibits 10(iii)(A)(78) through 10(iii)A(82) and are incorporated herein by reference.

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PART III

Item 10. ***Directors and Executive Officers of the Registrant***

The information required by this item, with respect to directors, is included under the captions *Director Nominees for Terms Expiring at the 2012 Annual Meeting* and *Directors with Terms Expiring at the 2010 or 2011 Annual Meetings* of the Company s proxy statement for the annual meeting of stockholders to be held January 8, 2010, to be filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

The information required by this item, with respect to executive officers, is included under the caption *Executive Officers* of the Company s proxy statement for the annual meeting of stockholders to be held January 8, 2010, to be filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

The information required by this item, with respect to beneficial ownership reporting, is included under the caption *Section 16(a) Beneficial Ownership Reporting Compliance* of the Company s proxy statement for the annual meeting of stockholders to be held January 8, 2010, to be filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 11. ***Executive Compensation***

The information required by this item is included under the captions *Compensation of Directors, Information Concerning the Board and Its Committees, Compensation Committee Interlocks and Insider Participation, Report of the Compensation Committee, Compensation Discussion and Analysis, Fiscal 2009 Summary Compensation Table, Fiscal 2009 Grants of Plan-Based Awards, Outstanding Equity Awards at Fiscal 2009 Year-End, Option Exercises and Stock Vested in Fiscal 2009, Pension Benefits in Fiscal 2009, Fiscal 2009 Nonqualified Deferred Compensation, Employment Arrangements, Potential Payments upon Termination, and Equity Compensation Plans* of the Company s proxy statement for the annual meeting of stockholders to be held January 8, 2010, to be filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item is included under the captions *Beneficial Ownership of the Company s Securities* and *Equity Compensation Plans* of the Company s proxy statement for the annual meeting of stockholders to be held January 8, 2010, to be filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this item is included under the caption *Certain Relationships and Related Party Transactions* of the Company s proxy statement for the annual meeting of stockholders to be held January 8, 2010, to be filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

The information required by this item is included under the caption *Fees Billed by Independent Registered Public Accounting Firm* of the Company s proxy statement for the annual meeting of stockholders to be held January 8, 2010, to be filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) The following documents are filed as a part of this report:

(1) Management s Report on Internal Control over Financial Reporting
Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of August 31, 2009 and 2008

Consolidated Statements of Income for the years ended August 31, 2009, 2008, and 2007

Consolidated Statements of Cash Flows for the years ended August 31, 2009, 2008, and 2007

Consolidated Statements of Stockholders Equity and Comprehensive Income for the years ended August 31, 2009, 2008, and 2007

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:
Schedule II Valuation and Qualifying Accounts

Any of Schedules I through V not listed above have been omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits filed with this report (begins on next page):
Copies of exhibits will be furnished to stockholders upon request at a nominal fee. Requests should be sent to Acuity Brands, Inc., Investor Relations Department, 1170 Peachtree Street, N.E., Suite 2400, Atlanta, Georgia 30309-7676.

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EXHIBIT 2	(a) Agreement and Plan of Merger among Acuity Brands, Inc., Acuity Merger Sub, Inc. and Acuity Brands Holdings, Inc., dated September 25, 2007.	Reference is made to Exhibit 10.1 of registrant s Form 8-K as filed with the Commission on September 26, 2007, which is incorporated herein by reference.
	(b) Agreement and Plan of Distribution by and between Acuity Brands, Inc. and Zep Inc., dated as of October 31, 2007.	Reference is made to Exhibit 2.1 of registrant s Form 8-K as filed with the Commission on November 6, 2007, which is incorporated herein by reference.
	(c) Stock Purchase Agreement dated March 18, 2009 by and between Acuity Brands, Inc., Acuity Brands Lighting, Inc., Sensor Switch, Inc., and Brian Platner.	Reference is made to Exhibit 2.1 of registrant s Form 8-K as filed with the Commission on March 18, 2009, which is incorporated herein by reference.
EXHIBIT 3	(a) Restated Certificate of Incorporation of Acuity Brands, Inc. (formerly Acuity Brands Holdings, Inc.), dated as of September 26, 2007	Reference is made to Exhibit 3.1 of registrant s Form 8-K as filed with the Commission on September 26, 2007, which is incorporated herein by reference.
	(b) Certificate of Amendment of Acuity Brands, Inc. (formerly Acuity Brands Holdings, Inc.), dated as of September 26, 2007	Reference is made to Exhibit 3.2 of registrant s Form 8-K as filed with the Commission on September 26, 2007, which is incorporated herein by reference.
	(c) Amended and Restated Bylaws of Acuity Brands, Inc., (formerly Acuity Brands Holdings, Inc.) dated as of January 8, 2009.	Reference is made to Exhibit 3.1 of registrant s Form 8-K as filed with the Commission on October 7, 2008, which is incorporated herein by reference.
EXHIBIT 4	(a) Form of Certificate representing Acuity Brands, Inc. Common Stock.	Reference is made to Exhibit 4.1 of registrant s Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(b) Stockholder Protection Rights Agreement between Acuity Brands, Inc. (formerly Acuity Brands Holdings, Inc.) and The Bank of New York, dated as of September 25, 2007.	Reference is made to Exhibit 4.2 of registrant s Form 8-K as filed with the Commission on September 26, 2007, which is incorporated herein by reference.
	(c) Letter Agreement appointing Successor Rights Agent.	Reference is made to Exhibit 4(c) of registrant s Form 10-Q as filed with the Commission on July 14, 2003, which is incorporated herein by reference.
	(d) First Supplemental Indenture, dated as of October 23, 2001, to Indenture dated January 26, 1999, between National Service Industries, Inc., L&C Spinco, Inc.*, L&C Lighting Group, Inc., The Zep Group, Inc. and SunTrust Bank.	Reference is made to Exhibit 10.10 of registrant s Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(e) Indenture dated as of January 26, 1999.	Reference is made to Exhibit 10.11 to Amendment No. 2 to the Registration Statement on Form 10, filed by L&C Spinco, Inc.* on September 6, 2001, which is incorporated herein by reference.
	(f) Form of 8.375% Note due August 1, 2010.	Reference is made to Exhibit 10.13 to Amendment No. 2 to the Registration Statement on Form 10, filed by L&C Spinco, Inc.* on September 6, 2001, which is incorporated herein by reference.

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	(g) Second Supplemental Indenture between Acuity Brands, Inc., Old ABI, Inc. and The Bank of New York Trust Company, N.A., dated as of September 26, 2007.	Reference is made to Exhibit 4.1 of registrant s Form 8-K as filed with the Commission on September 26, 2007, which is incorporated herein by reference.
EXHIBIT 10(i)	(1) Deed to Secure Debt and Security Agreement, dated as of October 11, 2002.	Reference is made to Exhibit 10(i)A(12) of the registrant s Form 10-K as filed with the Commission on November 12, 2002, which is incorporated by reference.
	(2) Promissory Note, dated as of October 11, 2002.	Reference is made to Exhibit 10(i)A(13) of the registrant s Form 10-K as filed with the Commission on November 12, 2002, which is incorporated by reference.
	(3) Amended and Restated 364-Day Revolving Credit Agreement dated as of April 4, 2003 among Acuity Brands, Inc., the Subsidiary Borrowers from time to time hereto, the Lenders from time to time parties hereto, Bank One, NA, as Administrative Agent, and Wachovia Bank, N.A. as Syndication Agent.	Reference is made to Exhibit 10(i)A(1) of the registrant s Form 10-Q as filed with the Commission on April 14, 2003, which is incorporated by reference.
	(4) First Modification to Deed to Secure Debt and Security Agreement.	Reference is made to Exhibit 10(i)A(3) of the registrant s Form 10-Q as filed with the Commission on July 14, 2003, which is incorporated by reference.
	(5) 5-Year Revolving Credit Agreement, dated as of April 2, 2004 among Acuity Brands, Inc., the Subsidiary Borrowers from time to time parties thereto, the Lenders from time to time parties thereto, Bank One, NA (Main Office Chicago), Wachovia Bank, N.A. and LaSalle Bank National Association and Key Bank National Association, Banc One Capital Markets, Inc.	Reference is made to Exhibit 10(i)A-1(1) of the registrant s Form 10-Q as filed with the Commission on April 6, 2004, which is incorporated by reference.
	(6) Tax Disaffiliation Agreement, dated as of October 7, 2005, by and between National Service Industries, Inc. and Acuity Brands, Inc.	Reference is made to Exhibit 10(i)A(17) of the registrant s Form 10-K as filed with the Commission on November 1, 2005, which is incorporated by reference.
	(7) Amendment to Receivables Facility, dated as of September 29, 2005.	Reference is made to Exhibit 10(i)A(18) of the registrant s Form 10-K as filed with the Commission on November 1, 2005, which is incorporated by reference.
	(8) Amendment No. 4 to Receivables Facility, dated as of September 28, 2006.	Reference is made to Exhibit 10(i)A(19) of the registrant s Form 10-K as filed with the Commission on November 2, 2006, which is incorporated by reference.
	(9) 5-Year Revolving Credit Agreement, dated as of October 19, 2007 among Acuity Brands, Inc., the Subsidiary Borrowers from time to time parties hereto, the Lenders from time to time parties hereto, JPMorgan Chase Bank, National Association; Wachovia Bank, National Association; Bank of America, N.A.; Keybank National Association; Wells Fargo Bank, N.A.; and Branch Banking and Trust Company.	Reference is made to Exhibit 10(i)A(17) of the registrant s Form 10-K as filed with the Commission on October 30, 2007, which is incorporated herein by reference.

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	(10) Amended and Restated Credit and Security Agreement dated as of October 19, 2007 among Acuity Unlimited Inc., as Borrower; Acuity Brands Lighting, Inc., as Servicer; Variable Funding Capital Company, the Liquidity Banks from time to time party hereto; and Wachovia Bank National Association, as Agent.	Reference is made to Exhibit 10(i)A(18) of the registrant s Form 10-K as filed with the Commission on October 30, 2007, which is incorporated herein by reference.
	(11) Tax Disaffiliation Agreement between Acuity Brands, Inc. and Zep Inc., dated as of October 31, 2007.	Reference is made to Exhibit 10.1 of the registrant s Form 8-K as filed with the Commission on November 6, 2007, which is incorporated herein by reference.
EXHIBIT 10(iii)A	Management Contracts and Compensatory Arrangements:	
	(1) Acuity Brands, Inc. 2001 Nonemployee Directors Stock Option Plan.	Reference is made to Exhibit 10.6 of registrant s Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(2) Amendment No. 1 to Acuity Brands, Inc. Nonemployee Directors Stock Option Plan, dated December 20, 2001.	Reference is made to Exhibit 10(iii)A(3) of registrant s Form 10-Q as filed with the Commission on January 14, 2002, which is incorporated herein by reference.
	(3) Form of Indemnification Agreement.	Reference is made to Exhibit 10.7 to the Registration Statement on Form 10, filed by L&C Spinco, Inc.* with the Commission on July 3, 2001, which is incorporated herein by reference.
	(4) Form of Severance Agreement.	Reference is made to Exhibit 10 of registrant s Form 8-K as filed with the Commission on January 6, 2009, which is incorporated herein by reference.
	(5) Acuity Brands, Inc. Supplemental Deferred Savings Plan.	Reference is made to Exhibit 10.14 of registrant s Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(6) Acuity Brands, Inc. Executives Deferred Compensation Plan.	Reference is made to Exhibit 10.15 of registrant s Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(7) Acuity Brands, Inc. Senior Management Benefit Plan.	Reference is made to Exhibit 10.16 of registrant s Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(8) Acuity Brands, Inc. Executive Benefits Trust.	Reference is made to Exhibit 10.18 of registrant s Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(9) Acuity Brands, Inc. Supplemental Retirement Plan for Executives.	Reference is made to Exhibit 10.19 of registrant s Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(10) Acuity Brands, Inc. Benefits Protection Trust.	Reference is made to Exhibit 10.21 of registrant s Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.

(11) Employment Letter between National Service Industries, Inc. and Vernon J. Nagel, dated as of October 30, 2001.	Reference is made to Exhibit 10(iii)A(20) of the Form 10-Q of National Service Industries, Inc. for the quarter ended January 14, 2002, which is incorporated herein by reference.
(12) Form of Acuity Brands, Inc., Letter regarding Bonuses.	Reference is made to Exhibit 10.25 of registrant s Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(13) Amended Acuity Brands, Inc. Management Compensation and Incentive Plan.	Reference is made to Exhibit A of registrant s proxy statement for the Annual Meeting of Stockholders as filed with the Commission on November 12, 2002, which is incorporated herein by reference.
(14) Amendment No. 1 to Acuity Brands, Inc. Supplemental Deferred Savings Plan.	Reference is made to Exhibit 10(iii)A(2) of registrant s Form 10-Q as filed with the Commission on January 14, 2003, which is incorporated by reference.
(15) Amendment No. 1 to Acuity Brands, Inc. Executives Deferred Compensation Plan.	Reference is made to Exhibit 10(iii)A(3) of the registrant s Form 10-Q as filed with the Commission on January 14, 2003, which is incorporated by reference.
(16) Amendment No. 1 to Acuity Brands, Inc. Supplemental Retirement Plan for Executives.	Reference is made to Exhibit 10(iii)A(2) of the registrant s Form 10-Q as filed with the Commission on April 14, 2003, which is incorporated by reference.
(17) Acuity Brands, Inc. 2002 Supplemental Executive Retirement Plan.	Reference is made to Exhibit 10(iii)A(3)of the registrant s Form 10-Q as filed with the Commission on April 14, 2003, which is incorporated by reference.
(18) Letter Agreement relating to Supplemental Executive Retirement Plan between Acuity Brands, Inc. and Vernon J. Nagel.	Reference is made to Exhibit 10(iii)A(4) of the registrant s Form 10-Q as filed with the Commission on July 14, 2003, which is incorporated by reference.
(19) Amendment No. 2 to Acuity Brands, Inc. Supplemental Deferred Savings Plan.	Reference is made to Exhibit 10(iii)A(8) of the registrant s Form 10-Q as filed with the Commission on July 14, 2003, which is incorporated by reference.
(20) Form of Severance Agreement.	Reference is made to Exhibit 10(iii)A(32) of the registrant s Form 10-K as filed with the Commission on October 31, 2003, which is incorporated by reference.
(21) Amended and Restated Acuity Brands, Inc. Long-Term Incentive Plan.	Reference is made to Exhibit A of registrant s proxy statement for the Annual Meeting of Stockholders as filed with the Commission on November 7, 2003, which is incorporated herein by reference.
(22) Employment Letter between Acuity Brands, Inc. and Vernon J. Nagel, dated June 29, 2004.	Reference is made to Exhibit 10(III)A(1) of the registrant s Form 10-Q as filed with the Commission on July 6, 2004, which is incorporated by reference.
(23) Amended and Restated Severance Agreement, entered into as of January 20, 2004, by and between Acuity Brands, Inc. and Vernon J. Nagel.	Reference is made to Exhibit 10(III)A(2) of the registrant s Form 10-Q as filed with the Commission on July 6, 2004, which is incorporated by reference.

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(24) Amendment No. 3 to Acuity Brands, Inc. Supplemental Deferred Savings Plan.	Reference is made to Exhibit 10(iii)A(36) of the registrant s Form 10-K as filed with the Commission on October 29, 2004, which is incorporated by reference.
(25) Acuity Brands, Inc. Management Compensation and Incentive Plan Fiscal Year 2005 Plan Rules for Executive Officers.	Reference is made to Exhibit 10(III)A(2) of the registrant s Form 10-Q as filed with the Commission on January 6, 2005, which is incorporated by reference.
(26) Form of Incentive Stock Option Agreement for Executive Officers.	Reference is made to Exhibit 10(III)A(3) of the registrant s Form 10-Q filed with the Commission on January 6, 2005 incorporated by reference.
(27) Form of Nonqualified Stock Option Agreement for Executive Officers.	Reference is made to Exhibit 10(III)A(4) of the registrant s Form 10-Q as filed with the Commission on January 6, 2005, which is incorporated by reference.
(28) Premium-Priced Nonqualified Stock Option Agreement for Executive Officers between Acuity Brands, Inc. and Vernon J. Nagel.	Reference is made to Exhibit 10(III)A(5) of the registrant s Form 10-Q as filed with the Commission on January 6, 2005, which is incorporated by reference.
(29) Form of Restricted Stock Award Agreement for Executive Officers.	Reference is made to Exhibit 10(III)A(6) of the registrant s Form 10-Q as filed with the Commission on January 6, 2005, which is incorporated by reference.
(30) Acuity Brands, Inc. Long-Term Incentive Plan Fiscal Year 2005 Plan Rules for Executive Officers.	Reference is made to Exhibit 10(III)A(7) of the registrant s Form 10-Q as filed with the Commission on January 6, 2005, which is incorporated by reference.
(31) Acuity Brands, Inc. Matching Gift Program.	Reference is made to Exhibit 10(III)A(1) of the registrant s Form 10-Q as filed with the Commission on April 4, 2005, which is incorporated by reference.
(32) Acuity Brands, Inc. Long-Term Incentive Plan Fiscal Year 2006 Plan Rules for Executive Officers.	Reference is made to Exhibit 10(iii)A(47) of registrant s Form 10-K as filed with the Commission on November 1, 2005, which is incorporated by reference.
(33) Acuity Brands, Inc. Management Compensation and Incentive Plan Fiscal Year 2006 Plan Rules for Executive Officers.	Reference is made to Exhibit 10(iii)A(48) of registrant s Form 10-K as filed with the Commission on November 1, 2005, which is incorporated by reference.
(34) Employment Letter dated November 16, 2005 between Acuity Brands, Inc. and Richard K. Reece.	Reference is made to Exhibit 10.1 of registrant s Form 8-K filed with the Commission on November 18, 2005, which is incorporated herein by reference.
(35) Form of Nonqualified Stock Option Agreement for Executive Officers.	Reference is made to Exhibit 99.1 of registrant s Form 8-K filed with the Commission on December 2, 2005, which is incorporated herein by reference.
(36) Form of Acuity Brands, Inc. Long-Term Incentive Plan Restricted Stock Award.	Reference is made to Exhibit 99.2 of registrant s Form 8-K filed with the Commission on December 2, 2005, which is incorporated herein by reference.

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(37) Form of Severance Agreement.	Reference is made to Exhibit 99.2 of registrant s Form 8-K filed with the Commission on April 27, 2006, which is incorporated herein by reference.
(38) Amendment dated April 21, 2006 to the Amended and Restated Severance Agreement between Acuity Brands, Inc. and Vernon J. Nagle.	Reference is made to Exhibit 99.3 of registrant s Form 8-K filed with the Commission on April 27, 2006, which is incorporated herein by reference.
(39) Acuity Brands, Inc. Nonemployee Director Deferred Compensation Plan as Amended and Restated Effective June 29, 2006 (formerly known as the Nonemployee Director Deferred Stock Unit Plan).	Reference is made to Exhibit 99.1 of registrant s Form 8-K filed with the Commission on July 6, 2006, which is incorporated herein by reference.
(40) Amendment No. 4 to Acuity Brands, Inc. Supplemental Deferred Savings Plan.	Reference is made to Exhibit 99.2 of registrant s Form 8-K filed with the Commission on July 6, 2006, which is incorporated herein by reference.
(41) Long-Term Incentive Plan Rules for Executive Officers for Fiscal Year 2007.	Reference is made to Exhibit 99.1 of registrant s Form 8-K filed with the Commission on August 29, 2006, which is incorporated herein by reference.
(42) Management Compensation and Incentive Plan for Executive Officers for Fiscal Year 2007.	Reference is made to Exhibit 99.2 of registrant s Form 8-K filed with the Commission on August 29, 2006, which is incorporated herein by reference.
(43) 2005 Supplemental Deferred Savings Plan.	Reference is made to Exhibit 10.1 of registrant s Form 8-K filed with the Commission on October 5, 2006, which is incorporated herein by reference.
(44) Amendment No. 1 to Stock Option Agreement for Nonemployee Director dated October 25, 2006.	Reference is made to Exhibit 99.1 of registrant s Form 8-K filed with the Commission on October 27, 2006, which is incorporated herein by reference.
(45) Acuity Brands, Inc. 2002 Executives Deferred Compensation Plan as Amended on December 30, 2002 and as Amended and Restated January 1, 2005.	Reference is made to Exhibit 10(iii)A(61) of the registrant s Form 10-K as filed with the Commission on November 2, 2006, which is incorporated by reference.
(46) Amendment No. 1 to Acuity Brands, Inc. Long-Term Incentive Plan dated September 29, 2006.	Reference is made to Exhibit 10(iii)A(62) of the registrant s Form 10-K as filed with the Commission on November 2, 2006, which is incorporated by reference.
(47) Acuity Brands, Inc. 2002 Supplemental Executive Retirement Plan as Amended and Restated Effective January 1, 2005.	Reference is made to Exhibit 10(iii)A(63) of the registrant s Form 10-K as filed with the Commission on November 2, 2006, which is incorporated by reference.
(48) Form of Amended and Restated Change in Control Agreement.	Reference is made to Exhibit 99.1 of registrant s Form 8-K filed with the Commission on April 27, 2006, which is incorporated herein by reference.
(49) Amendment No. 1 to Acuity Brands, Inc. 2002 Supplemental Executive Retirement Plan.	Reference is made to Exhibit 99.1 of registrant s Form 8-K as filed with the Commission on June 29, 2007, which is incorporated herein by reference.
(50) Amendment No. 1 to Acuity Brands, Inc. 2005 Supplemental Deferred Savings Plan.	Reference is made to Exhibit 99.2 of registrant s Form 8-K as filed with the Commission on June 29, 2007, which is incorporated herein by reference.

(51) Confidentiality and Restrictive Covenants Agreement with John K. Morgan.	Reference is made to Exhibit 10(iii)A(72) of the registrant s Form 10-K as filed with the Commission on October 30, 2007, which is incorporated herein by reference.
(52) Amendment No. 3 to Acuity Brands, Inc. 2001 Nonemployee Directors Stock Option Plans.	Reference is made to Exhibit 10(iii)A(3) of registrant s Form 10-Q as filed with the Commission on July 10, 2007, which is incorporated herein by reference.
(53) Amendment No. 2 to Acuity Brands, Inc. Long-Term Incentive Plan.	Reference is made to Exhibit 10(iii)A(4) of registrant s Form 10-Q as filed with the Commission on July 10, 2007, which is incorporated herein by reference.
(54) Amendment No. 1 to Acuity Brands, Inc. Senior Benefit Plan.	Reference is made to Exhibit 10(iii)A(5) of registrant s Form 10-Q as filed with the Commission on July 10, 2007, which is incorporated herein by reference.
(55) Amendment No. 5 to Acuity Brands, Inc. Supplemental Deferred Savings Plan.	Reference is made to Exhibit 10(iii)A(6) of registrant s Form 10-Q as filed with the Commission on July 10, 2007, which is incorporated herein by reference.
(56) Amendment No. 2 to Acuity Brands, Inc. Amended and Restated Severance Agreement.	Reference is made to Exhibit 10(iii)A(2) of registrant s Form 10-Q as filed with the Commission on January 4, 2007, which is incorporated herein by reference.
(57) Amendment No. 2 to Acuity Brands, Inc. 2001 Non-employee Directors Stock Option Plan.	Reference is made to Exhibit 10(iii)A(2) of registrant s Form 10-Q as filed with the Commission on April 4, 2007, which is incorporated herein by reference.
(58) Amendment No. 1 to Nonemployee Director Stock Option Plan.	Reference is made to Exhibit 99.1 of registrant s Form 8-K as filed with the Commission on October 27, 2006, which is incorporated herein by reference.
(59) Acuity Brands, Inc. Long-Term Incentive Plan.	Reference is made to Exhibit A of the registrant s Proxy Statement as filed with the Commission on November 16, 2007, which is incorporated herein by reference.
(60) Acuity Brands, Inc. Management Compensation and Incentive Plan.	Reference is made to Exhibit B of the registrant s Proxy Statement as filed with the Commission on November 16, 2007, which is incorporated herein by reference.
(61) Acuity Brands, Inc. Long-Term Incentive Plan Fiscal Year 2008 Plan Rules for Executive Officers.	Reference is made to Exhibit 99.1 of the registrant s Form 8-K as filed with the Commission on January 4, 2008, which is incorporated herein by reference.
(62) Acuity Brands, Inc. Management Compensation and Incentive Plan Fiscal Year 2008 Plan Rules for Executive Officers.	Reference is made to Exhibit 99.2 of the registrant s Form 8-K as filed with the Commission on January 4, 2008, which is incorporated herein by reference.
(63) Amendment No. 2 to Acuity Brands, Inc. 2002 Supplemental Executive Retirement Plan.	Reference is made to Exhibit 10(iii)A(1) of the registrant s Form 10-Q as filed with the Commission on January 8, 2008, which is incorporated herein by reference.

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(64) Form of Indemnification Agreement.	Reference is made to Exhibit 10.1 of the registrant s Form 8-K as filed with the Commission on January 16, 2008, which is incorporated herein by reference.
(65) Amendment No. 2 to Acuity Brands, Inc. Nonemployee Director Deferred Compensation Plan.	Reference is made to Exhibit 10(iii)A(86) of the registrant s Form 10-K as filed with the Commission on October 27, 2008, which is incorporated herein by reference.
(66) Amendment No. 2 to Acuity Brands, Inc. 2002 Supplemental Executive Retirement Plan.	Reference is made to Exhibit 10(iii)A(87) of the registrant s Form 10-K as filed with the Commission on October 27, 2008, which is incorporated herein by reference.
(67) Amendment No. 3 to Acuity Brands, Inc. 2002 Supplemental Executive Retirement Plan.	Reference is made to Exhibit 10(iii)A(88) of the registrant s Form 10-K as filed with the Commission on October 27, 2008, which is incorporated herein by reference.
(68) Amendment No. 3 to Acuity Brands, Inc. 2005 Supplemental Deferred Savings Plan.	Reference is made to Exhibit 10(iii)A(89) of the registrant s Form 10-K as filed with the Commission on October 27, 2008, which is incorporated herein by reference.
(69) Amendment No. 4 to Acuity Brands, Inc. 2005 Supplemental Deferred Savings Plan.	Reference is made to Exhibit 10(iii)A(90) of the registrant s Form 10-K as filed with the Commission on October 27, 2008, which is incorporated herein by reference.
(70) Amendment No. 1 to Amended and Restated Change in Control Agreement with John T. Hartman.	Reference is made to Exhibit 10(iii)A(91) of the registrant s Form 10-K as filed with the Commission on October 27, 2008, which is incorporated herein by reference.
(71) Amendment No. 1 to Amended and Restated Change in Control Agreement with Jeremy M. Quick.	Reference is made to Exhibit 10(iii)A(92) of the registrant s Form 10-K as filed with the Commission on October 27, 2008, which is incorporated herein by reference.
(72) Form of Restricted Stock Award Agreement.	Reference is made to Exhibit 10(h) of registrant s Form 10-Q as filed with the Commission on April 8, 2009, which is incorporated herein by reference.
(73) Form of Nonqualified Stock Option Agreement for Key Employees effective October 24, 2008.	Reference is made to Exhibit 10(i) of registrant s Form 10-Q as filed with the Commission on April 8, 2009, which is incorporated herein by reference.
(74) Form of Nonqualified Stock Option Agreement for Executive Officers of Acuity Brands, Inc. effective October 24, 2008.	Reference is made to Exhibit 10(j) of registrant s Form 10-Q as filed with the Commission on April 8, 2009, which is incorporated herein by reference.
(75) Employment Letter dated April 29, 2004 between Acuity Brands Lighting, Inc. and John T. Hartman.	Reference is made to Exhibit 10(d) of registrant s Form 10-Q as filed with the Commission on April 8, 2009, which is incorporated herein by reference.
(76) Employment Letter dated October 29, 2004 between Acuity Brands Lighting, Inc. and Jeremy M. Quick.	Reference is made to Exhibit 10(e) of registrant s Form 10-Q as filed with the Commission on April 8, 2009, which is incorporated herein by reference.

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	(77) Employment Letter dated July 27, 2006 between Acuity Brands, Inc. and Mark A. Black.	Reference is made to Exhibit 10(f) of registrant s Form 10-Q as filed with the Commission on April 8, 2009, which is incorporated herein by reference.
	(78) Amendment No. 3 to Acuity Brands, Inc. Amended and Restated Severance Agreement, between Acuity Brands, Inc. and Vernon J. Nagel.	Filed with the Commission as part of this Form 10-K.
	(79) Amendment No. 1 to Acuity Brands, Inc. Amended and Restated Severance Agreement between Acuity Brands, Inc. and Mark A. Black.	Filed with the Commission as part of this Form 10-K.
	(80) Amendment No. 1 to Acuity Brands, Inc. Amended and Restated Severance Agreement between Acuity Brands, Inc. and Jeremy M. Quick	Filed with the Commission as part of this Form 10-K.
	(81) Amendment No. 1 to Acuity Brands, Inc. Amended and Restated Severance Agreement between Acuity Brands, Inc. and Richard K. Reece.	Filed with the Commission as part of this Form 10-K.
	(82) Amendment No. 1 to Acuity Brands, Inc. Amended and Restated Severance Agreement between Acuity Brands, Inc. and C. Dan Smith.	Filed with the Commission as part of this Form 10-K.
	(83) Form of Severance Agreement.	Filed with the Commission as part of this Form 10-K.
	(84) Amended and Restated Change in Control Agreement.	Filed with the Commission as part of this Form 10-K.
EXHIBIT 14	Code of Ethics and Business Conduct.	Reference is made to Exhibit 14 of registrant s Form 8-K as filed with the Commission on January 12, 2005, which is incorporated herein by reference.
EXHIBIT 21	List of Subsidiaries.	Filed with the Commission as part of this Form 10-K.
EXHIBIT 23	Consent of Independent Registered Public Accounting Firm.	Filed with the Commission as part of this Form 10-K.
EXHIBIT 24	Powers of Attorney.	Filed with the Commission as part of this Form 10-K.
EXHIBIT 31	(a) Rule 13a-14(a)/15d-14(a) Certification, signed by Vernon J. Nagel.	Filed with the Commission as part of this Form 10-K.
	(b) Rule 13a-14(a)/15d-14(a) Certification, signed by Richard K. Reece.	Filed with the Commission as part of this Form 10-K.
EXHIBIT 32	(a) Section 1350 Certification, signed by Vernon J. Nagel.	Filed with the Commission as part of this Form 10-K.
	(b) Section 1350 Certification, signed by Richard K. Reece.	Filed with the Commission as part of this Form 10-K.

* Acuity Brands, Inc. operated under the name L&C Spinco, Inc. from July 27, 2001 November 9, 2001.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ACUITY BRANDS, INC.

Date: October 29, 2009 By: /s/ VERNON J. NAGEL
Vernon J. Nagel

Chairman, President, and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ VERNON J. NAGEL **Vernon J. Nagel**	Chairman, President, and Chief Executive Officer	October 29, 2009
/s/ RICHARD K. REECE **Richard K. Reece**	Executive Vice President and Chief Financial Officer (Principle Financial and Accounting Officer)	October 29, 2009
* **Peter C. Browning**	Director	October 29, 2009
* **John L. Clendenin**	Director	October 29, 2009
* **George C. (Jack) Guynn**	Director	October 29, 2009
* **Gordon D. Harnett**	Director	October 29, 2009
* **Robert F. McCullough**	Director	October 29, 2009
* **Julia B. North**	Director	October 29, 2009

	*	Director	October 29, 2009
	Ray M. Robinson		
	*	Director	October 29, 2009
	Neil Williams		
*BY:	/s/ RICHARD K. REECE	Attorney-in-Fact	October 29, 2009
	Richard K. Reece		

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Schedule II

Acuity Brands, Inc.

Valuation and Qualifying Accounts

for the Years Ended August 31, 2009, 2008, and 2007

(In thousands)

Historical amounts in the following table have been restated to exclude amounts related to discontinued operations. For additional information, see Note 2 *Discontinued Operations* of the *Notes to Consolidated Financial Statements* included in Item 8 of this filing.

	Balance at Beginning of Year	Additions and Reductions Charged to Costs and Expenses	Additions and Reductions Charged to Other Accounts[1]	Deductions	Balance at End of Year
Year Ended August 31, 2009:					
Reserve for doubtful accounts	$ 1,640	503	(98)	157	$ 1,888
Reserve for estimated warranty and recall costs	$ 4,888	2,783	(47)	4,229	$ 3,395
Reserve for estimated returns and allowances	$ 5,283	45,704		46,633	$ 4,354
Self-insurance reserve[2]	$ 12,587	5,637	499	7,001	$ 11,722
Year Ended August 31, 2008:					
Reserve for doubtful accounts	$ 1,361	388	34	143	$ 1,640
Reserve for estimated warranty and recall costs	$ 4,393	7,230	(1,040)	5,695	$ 4,888
Reserve for estimated returns and allowances	$ 7,533	53,545		55,795	$ 5,283
Self-insurance reserve[2]	$ 12,628	7,657		7,698	$ 12,587
Year Ended August 31, 2007:					
Reserve for doubtful accounts	$ 2,417	(741)	317	632	$ 1,361
Reserve for estimated warranty and recall costs	$ 6,092	3,721		5,420	$ 4,393
Reserve for estimated returns and allowances	$ 6,835	56,628		55,930	$ 7,533
Self-insurance reserve[2]	$ 11,967	8,160		7,499	$ 12,628

(1) Includes recoveries and adjustments credited to the reserve.
(2) Includes reserves for workers compensation, auto, product, and general liability claims.