

EMERSON ELECTRIC CO  
Form 10-Q  
August 04, 2011  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

---

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-278

EMERSON ELECTRIC CO.

(Exact name of registrant as specified in its charter)

Missouri

(State or other jurisdiction of  
incorporation or organization)

43-0259330

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

8000 W. Florissant Ave.  
P.O. Box 4100

St. Louis, Missouri  
(Address of principal executive offices)

63136

(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: EMERSON ELECTRIC CO - Form 10-Q

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. Common stock of \$0.50 par value per share outstanding at July 31, 2011: 744,704,773 shares.

---

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

EMERSON ELECTRIC CO. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
THREE AND NINE MONTHS ENDED JUNE 30, 2010 AND 2011  
(Dollars in millions, except per share amounts; unaudited)

|  | Three Months Ended<br>June 30, |       | Nine Months Ended<br>June 30, |        |
|--|--------------------------------|-------|-------------------------------|--------|
|  | 2010                           | 2011  | 2010                          | 2011   |
| Net sales  | \$5,417                        | 6,288 | 15,198                        | 17,677 |
| Costs and expenses:  |                                |       |                               |        |
| Cost of sales  | 3,253                          | 3,790 | 9,203                         | 10,710 |
| Selling, general and administrative expenses                                       | 1,168                          | 1,363 | 3,505                         | 3,989  |
| Other deductions, net  | 69                             | 87    | 253                           | 266    |
| Interest expense (net of interest income of \$5, \$6, \$14 and \$17, respectively) | 64                             | 56    | 196                           | 174    |
| Earnings from continuing operations before income taxes                            | 863                            | 992   | 2,041                         | 2,538  |
| Income taxes   | 266                            | 294   | 594                           | 782    |
| Earnings from continuing operations  | 597                            | 698   | 1,447                         | 1,756  |
| Discontinued operations, net of tax  | 4                              | -     | 9                             | -      |
| Net earnings   | 601                            | 698   | 1,456                         | 1,756  |
| Less: Noncontrolling interests in earnings of subsidiaries                         | 16                             | 15    | 41                            | 37     |
| Net earnings common stockholders   | \$585                          | 683   | 1,415                         | 1,719  |
| Earnings common stockholders:  |                                |       |                               |        |
| Earnings from continuing operations  | \$581                          | 683   | 1,406                         | 1,719  |
| Discontinued operations, net of tax  | 4                              | -     | 9                             | -      |
| Net earnings common stockholders   | \$585                          | 683   | 1,415                         | 1,719  |
| Basic earnings per share common stockholders:                                      |                                |       |                               |        |
| Earnings from continuing operations  | \$0.77                         | 0.91  | 1.86                          | 2.28   |
| Discontinued operations  | 0.01                           | -     | 0.02                          | -      |
| Basic earnings per common share  | \$0.78                         | 0.91  | 1.88                          | 2.28   |
| Diluted earnings per share common stockholders:                                    |                                |       |                               |        |
| Earnings from continuing operations  | \$0.76                         | 0.90  | 1.85                          | 2.26   |

Edgar Filing: EMERSON ELECTRIC CO - Form 10-Q

|                                   |         |       |       |       |
|-----------------------------------|---------|-------|-------|-------|
| Discontinued operations           | 0.01    | -     | 0.01  | -     |
| Diluted earnings per common share | \$0.77  | 0.90  | 1.86  | 2.26  |
| Cash dividends per common share   | \$0.335 | 0.345 | 1.005 | 1.035 |

See accompanying Notes to Consolidated Financial Statements.

EMERSON ELECTRIC CO. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Dollars in millions, except share amounts; unaudited)

|  | Sept 30,<br>2010 | June 30,<br>2011 |
|--|------------------|------------------|
| <b>ASSETS</b>  |                  |                  |
| Current assets   |                  |                  |
| Cash and equivalents   | \$ 1,592         | 1,781            |
| Receivables, less allowances of \$98 and \$108, respectively   | 3,989            | 4,443            |
| Inventories  | 2,105            | 2,422            |
| Other current assets   | 677              | 637              |
| Total current assets   | 8,363            | 9,283            |
| Property, plant and equipment, net   | 3,287            | 3,382            |
| Other assets   |                  |                  |
| Goodwill   | 8,656            | 8,974            |
| Other intangible assets  | 2,150            | 2,074            |
| Other  | 387              | 391              |
| Total other assets   | 11,193           | 11,439           |
| Total assets   | \$22,843         | 24,104           |
| <b>LIABILITIES AND EQUITY</b>  |                  |                  |
| Current liabilities  |                  |                  |
| Short-term borrowings and current maturities of long-term debt   | \$480            | 862              |
| Accounts payable   | 2,409            | 2,633            |
| Accrued expenses   | 2,864            | 2,657            |
| Income taxes   | 96               | 156              |
| Total current liabilities  | 5,849            | 6,308            |
| Long-term debt   | 4,586            | 4,353            |
| Other liabilities  | 2,456            | 2,444            |
| Equity   |                  |                  |
| Preferred stock, \$2.50 par value per share; authorized, 5,400,000 shares; issued, none  | -                | -                |
| Common stock, \$0.50 par value per share; authorized, 1,200,000,000 shares; issued, 953,354,012 shares; outstanding, 752,690,806 shares and 746,860,009 shares, respectively | 477              | 477              |
| Additional paid-in capital   | 192              | 375              |
| Retained earnings  | 15,869           | 16,807           |
| Accumulated other comprehensive income   | (426 )           | (74 )            |
| Cost of common stock in treasury, 200,663,206 shares and 206,494,003 shares, respectively  | (6,320 )         | (6,741 )         |
| Common stockholders' equity  | 9,792            | 10,844           |
| Noncontrolling interests in subsidiaries   | 160              | 155              |
| Total equity   | 9,952            | 10,999           |
| Total liabilities and equity   | \$22,843         | 24,104           |

See accompanying Notes to Consolidated Financial Statements.

EMERSON ELECTRIC CO. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
NINE MONTHS ENDED JUNE 30, 2010 AND 2011  
(Dollars in millions; unaudited)

|   | Nine Months Ended<br>June 30, |          |
|---|-------------------------------|----------|
|   | 2010                          | 2011     |
| <b>Operating activities</b>   |                               |          |
| Net earnings  | \$1,456                       | 1,756    |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                               |          |
| Depreciation and amortization   | 605                           | 650      |
| Changes in operating working capital  | 28                            | (469 )   |
| Pension funding   | (209 )                        | (100 )   |
| Other   | 142                           | 141      |
| Net cash provided by operating activities   | 2,022                         | 1,978    |
| <b>Investing activities</b>   |                               |          |
| Capital expenditures  | (300 )                        | (403 )   |
| Purchases of businesses, net of cash and equivalents acquired                       | (1,372 )                      | (228 )   |
| Other   | 17                            | (42 )    |
| Net cash used in investing activities   | (1,655 )                      | (673 )   |
| <b>Financing activities</b>   |                               |          |
| Net increase in short-term borrowings   | 1,747                         | 198      |
| Proceeds from long-term debt  | 601                           | 1        |
| Principal payments on long-term debt  | (50 )                         | (55 )    |
| Dividends paid  | (756 )                        | (781 )   |
| Purchases of treasury stock   | (71 )                         | (495 )   |
| Other   | 109                           | (32 )    |
| Net cash provided by (used in) financing activities                                 | 1,580                         | (1,164 ) |
| Effect of exchange rate changes on cash and equivalents                             | (83 )                         | 48       |
| Increase in cash and equivalents  | 1,864                         | 189      |
| Beginning cash and equivalents  | 1,560                         | 1,592    |
| Ending cash and equivalents   | \$3,424                       | 1,781    |
| <b>Changes in operating working capital</b>   |                               |          |
| Receivables   | \$(228 )                      | (294 )   |
| Inventories   | (235 )                        | (240 )   |
| Other current assets  | (67 )                         | 55       |
| Accounts payable  | 307                           | 125      |
| Accrued expenses  | 115                           | (135 )   |
| Income taxes  | 136                           | 20       |
| Total changes in operating working capital  | \$28                          | (469 )   |

See accompanying Notes to Consolidated Financial Statements.



## EMERSON ELECTRIC CO. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

1. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary for a fair presentation of operating results for the interim periods presented. Adjustments consist of normal and recurring accruals. The consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required for annual financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP). Results for the three and nine months ended June 30, 2010 reflect the Company's reclassification of the appliance motors and U.S. commercial and industrial motors businesses (Motors) as discontinued operations in conjunction with the sale of those businesses in the fourth quarter of 2010, and the movement of the retained hermetic motors business from the Tools and Storage segment to the Industrial Automation segment. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2010.

Effective October 1, 2010, the Company prospectively adopted updates to ASC 605, Revenue Recognition, regarding the allocation of consideration to the various elements of multiple deliverables arrangements. Under the updated ASC 605, the allocation of consideration is now based on vendor-specific objective evidence, third party evidence or management estimates of selling price. The impact of this change on any period presented is inconsequential.

Approximately ten percent of the Company's revenues arise from qualifying sales arrangements that include the delivery of multiple elements, principally in the Network Power and Process Management segments. The vast majority of the deliverables are tangible products, with a small portion attributable to installation, service and maintenance. Selling prices are primarily determined using vendor-specific objective evidence. Generally, contract duration is short-term and cancellation, termination or refund provisions apply only in the event of contract breach and have historically not been invoked.

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

|                            | Three Months Ended |       | Nine Months Ended |       |
|----------------------------|--------------------|-------|-------------------|-------|
|                            | June 30,           |       | June 30,          |       |
|                            | 2010               | 2011  | 2010              | 2011  |
| Basic shares outstanding   | 751.1              | 748.7 | 750.8             | 751.0 |
| Dilutive shares            | 6.6                | 4.6   | 6.1               | 5.2   |
| Diluted shares outstanding | 757.7              | 753.3 | 756.9             | 756.2 |

3. The change in equity for the nine months of 2011 is shown below (in millions):

|  | Common<br>Stockholders'<br>Equity | Noncontrolling<br>Interests in<br>Subsidiaries | Total Equity |
|--|-----------------------------------|--|--------------|
| September 30, 2010                     | \$ 9,792                          | 160  | 9,952        |
| Net earnings                           | 1,719                             | 37   | 1,756        |
| Other comprehensive income             | 352                               | 1  | 353          |
| Cash dividends                         | (781 )                            | (42 )  | (823 )       |
| Net treasury stock purchases and other | (238 )                            | (1 )   | (239 )       |
| June 30, 2011                          | \$ 10,844                         | 155  | 10,999       |



## EMERSON ELECTRIC CO. AND SUBSIDIARIES

Comprehensive income, net of applicable income taxes, for the three and nine months ended June 30, 2011 and 2010 is summarized as follows (in millions):

|  | Three Months Ended<br>June 30, |       | Nine Months Ended<br>June 30, |       |
|--|--------------------------------|-------|-------------------------------|-------|
|  | 2010                           | 2011  | 2010                          | 2011  |
| Net earnings                                   | \$ 601                         | 698   | 1,456                         | 1,756 |
| Foreign currency translation                   | (214 )                         | 89    | (308 )                        | 370   |
| Cash flow hedges and other                     | (23 )                          | (16 ) | 10                            | (17 ) |
|  | 364                            | 771   | 1,158                         | 2,109 |
| Less: Noncontrolling interests                 | 13                             | 12    | 39                            | 38    |
| Amounts attributable to common<br>stockholders | \$ 351                         | 759   | 1,119                         | 2,071 |

The change in foreign currency translation during the third quarter and nine months of 2011 is primarily due to the weakening of the U.S. dollar. The amount attributable to noncontrolling interests in subsidiaries consists of earnings and foreign currency translation.

4. Net periodic pension and net postretirement plan expenses are summarized as follows (in millions):

|                                   | Three months ended June 30, |       |                |      | Nine months ended June 30, |        |                |      |
|-----------------------------------|-----------------------------|-------|----------------|------|----------------------------|--------|----------------|------|
|                                   | Pension                     |       | Postretirement |      | Pension                    |        | Postretirement |      |
|                                   | 2010                        | 2011  | 2010           | 2011 | 2010                       | 2011   | 2010           | 2011 |
| Service cost                      | \$ 18                       | 21    | 1              | 1    | 56                         | 62     | 3              | 3    |
| Interest cost                     | 55                          | 55    | 6              | 4    | 166                        | 166    | 18             | 13   |
| Expected return on plan<br>assets | (76 )                       | (82 ) |                |      | (229 )                     | (246 ) |                |      |
| Net amortization                  | 35                          | 42    | -              | (2 ) | 104                        | 127    | 1              | (6 ) |
| Total                             | \$ 32                       | 36    | 7              | 3    | 97                         | 109    | 22             | 10   |

5. Other deductions, net are summarized as follows (in millions):

|                               | Three Months Ended<br>June 30, |      | Nine Months Ended<br>June 30, |       |
|-------------------------------|--------------------------------|------|-------------------------------|-------|
|                               | 2010                           | 2011 | 2010                          | 2011  |
| Other deductions, net         |                                |      |                               |       |
| Amortization of intangibles   | \$ 44                          | 64   | 124                           | 195   |
| Rationalization of operations | 27                             | 21   | 101                           | 54    |
| Other                         | (2 )                           | 2    | 31                            | 39    |
| Gains, net                    | -                              | -    | (3 )                          | (22 ) |
| Total                         | \$ 69                          | 87   | 253                           | 266   |

Other deductions, net increased for both the three and nine months ended June 30, 2011, due to higher amortization expense on acquired intangible assets and unfavorable impact of foreign currency transactions, primarily due to the weakening of the U.S. dollar compared with the prior year, partially offset by lower rationalization expense. Gains, net for the nine months ended June 30, 2011 include a \$15 million gain related to the acquisition of full ownership of a Process Management joint venture in India in the second quarter.



## EMERSON ELECTRIC CO. AND SUBSIDIARIES

6. Rationalization of operations expense reflects costs associated with the Company's efforts to continually improve operational efficiency and deploy assets globally in order to remain competitive on a worldwide basis. Details of the change in the liability for rationalization during the nine months ended June 30, 2011 follow (in millions):

|  | Sept 30,<br>2010 | Expense | Paid/<br>Utilized | June 30,<br>2011 |
|--|------------------|---------|-------------------|------------------|
| Severance and benefits                   | \$ 57            | 15      | 41                | 31               |
| Lease and other contract terminations    | 8                | 2       | 7                 | 3                |
| Fixed asset write-downs                  | -                | 1       | 1                 | -                |
| Vacant facility and other shutdown costs | 4                | 10      | 11                | 3                |
| Start-up and moving costs                | -                | 26      | 25                | 1                |
| Total                                    | \$ 69            | 54      | 85                | 38               |

Rationalization of operations expense by segment is summarized as follows (in millions):

|                       | Three Months Ended<br>June 30, |      | Nine Months Ended<br>June 30, |      |
|-----------------------|--------------------------------|------|-------------------------------|------|
|                       | 2010                           | 2011 | 2010                          | 2011 |
| Process Management    | \$ 6                           | 4    | 22                            | 8    |
| Industrial Automation | 11                             | 8    | 44                            | 18   |
| Network Power         | 5                              | 6    | 21                            | 16   |
| Climate Technologies  | 4                              | 2    | 9                             | 8    |
| Tools and Storage     | 1                              | 1    | 5                             | 4    |
| Total                 | \$ 27                          | 21   | 101                           | 54   |

The Company expects to incur full year 2011 rationalization expense of approximately \$80 million to \$90 million, which includes the \$54 million shown above, as well as costs to complete actions initiated before the end of the third quarter and actions anticipated to be approved and initiated during the remainder of the year. Costs incurred during the nine months of 2011 included shutdown costs and start-up and moving costs due to workforce reductions and/or the consolidation of facilities. Vacant facilities and other shutdown costs were not material for any segment. Actions during the nine months of 2011 included Process Management reducing forcecount and consolidating facilities in North America and Europe; Industrial Automation consolidating production facilities within North America and Europe; Network Power reducing forcecount in North America, Europe and Asia and consolidating facilities in Asia and North America; and Climate Technologies consolidating production facilities in North America.

7. Other Financial Information (in millions):

|   | Sept 30,<br>2010 | June 30,<br>2011 |
|---|------------------|------------------|
| <b>Inventories</b>                        |                  |                  |
| Finished products                         | \$ 746           | 867              |
| Raw materials and work in process         | 1,359            | 1,555            |
| Total                                     | \$ 2,105         | 2,422            |
| <b>Property, plant and equipment, net</b> |                  |                  |
| Property, plant and equipment, at cost    | \$ 8,307         | 8,738            |
| Less: Accumulated depreciation            | 5,020            | 5,356            |

|       |          |       |
|-------|----------|-------|
| Total | \$ 3,287 | 3,382 |
|-------|----------|-------|

7

---

## EMERSON ELECTRIC CO. AND SUBSIDIARIES

|                                     | Sept 30,<br>2010 | June 30,<br>2011 |
|-------------------------------------|------------------|------------------|
| <b>Goodwill by business segment</b> |                  |                  |
| Process Management                  | \$ 2,274         | 2,416            |
| Industrial Automation               | 1,379            | 1,443            |
| Network Power                       | 3,997            | 4,082            |
| Climate Technologies                | 464              | 484              |
| Tools and Storage                   | 542              | 549              |
| <b>Total</b>                        | <b>\$ 8,656</b>  | <b>8,974</b>     |

Changes in goodwill since September 30, 2010 are primarily due to foreign currency translation and the second quarter acquisition of full ownership of a Process Management joint venture in India. Valuations of certain acquired assets and liabilities are in-process and purchase price allocations for acquisitions are subject to refinement.

## Accrued expenses include the following:

|   |                 |              |
|---|-----------------|--------------|
| Employee compensation                           | \$ 683          | 629          |
| Advance customer payments                       | \$ 385          | 422          |
| Product warranty liability                      | \$ 224          | 223          |
| <b>Other liabilities</b>                        |                 |              |
| Deferred income taxes                           | \$ 762          | 784          |
| Pension plans                                   | 612             | 579          |
| Postretirement plans, excluding current portion | 380             | 373          |
| Other   | 702             | 708          |
| <b>Total</b>                                    | <b>\$ 2,456</b> | <b>2,444</b> |

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

|  | Three months ended June 30, |              |            |            | Nine months ended June 30, |               |              |              |
|--|-----------------------------|--------------|------------|------------|----------------------------|---------------|--------------|--------------|
|  | Sales                       |              | Earnings   |            | Sales                      |               | Earnings     |              |
|  | 2010                        | 2011         | 2010       | 2011       | 2010                       | 2011          | 2010         | 2011         |
| Process Management                       | \$ 1,511                    | 1,789        | 311        | 366        | 4,321                      | 4,984         | 768          | 952          |
| Industrial Automation                    | 1,124                       | 1,391        | 162        | 230        | 3,120                      | 3,909         | 401          | 625          |
| Network Power                            | 1,418                       | 1,683        | 181        | 176        | 4,150                      | 4,968         | 545          | 508          |
| Climate Technologies                     | 1,106                       | 1,171        | 222        | 229        | 2,798                      | 2,995         | 498          | 539          |
| Tools and Storage                        | 452                         | 472          | 94         | 96         | 1,308                      | 1,373         | 264          | 280          |
|  | 5,611                       | 6,506        | 970        | 1,097      | 15,697                     | 18,229        | 2,476        | 2,904        |
| <b>Differences in accounting methods</b> |                             |              | 50         | 60         |                            |               | 142          | 169          |
| Corporate and other                      |                             |              | (93 )      | (109 )     |                            |               | (381 )       | (361 )       |
| Eliminations/Interest                    | (194 )                      | (218 )       | (64 )      | (56 )      | (499 )                     | (552 )        | (196 )       | (174 )       |
| <b>Total</b>                             | <b>\$ 5,417</b>             | <b>6,288</b> | <b>863</b> | <b>992</b> | <b>15,198</b>              | <b>17,677</b> | <b>2,041</b> | <b>2,538</b> |

Industrial Automation intersegment sales for the three months ended June 30, 2011 and 2010 were \$198 million and \$174 million, respectively, and were \$500 million and \$438 million, respectively, for the nine months ended June 30, 2011 and 2010. The increase in Corporate and other for the 2011 third quarter reflects higher incentive stock compensation expense of \$13 million, primarily due to changes in the Company's stock price. The decrease in

Corporate and other expense for the 2011 year-to-date period primarily reflects the \$15 million gain related to the acquisition of full ownership of a joint venture in India and lower acquisition-related costs versus the prior year.



## EMERSON ELECTRIC CO. AND SUBSIDIARIES

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

Hedging Activities – The notional value of foreign currency hedge positions was approximately \$1.3 billion as of June 30, 2011. Commodity hedges outstanding at June 30, 2011 included a total of approximately 70 million pounds of copper and aluminum. All derivatives receiving deferral accounting are cash flow hedges. The majority of hedging gains and losses deferred as of June 30, 2011 are expected to be recognized over the next 12 months as the underlying forecasted transactions occur. The following amounts are included in earnings and Other Comprehensive Income for the three and nine months ended June 30, 2011 and 2010 (in millions):

|                  | Location              | Gain/(Loss) to Earnings |      |             |      | Gain/(Loss) to OCI |      |             |      |
|------------------|-----------------------|-------------------------|------|-------------|------|--------------------|------|-------------|------|
|                  |                       | 3rd Quarter             |      | Nine Months |      | 3rd Quarter        |      | Nine Months |      |
|                  |                       | 2010                    | 2011 | 2010        | 2011 | 2010               | 2011 | 2010        | 2011 |
| Deferred         |                       |                         |      |             |      |                    |      |             |      |
| Foreign currency | Sales                 | \$ (2 )                 | 2    | (6 )        | 8    | 6                  | -    | 5           | 6    |
| Foreign currency | Cost of sales         | 3                       | 6    | 2           | 16   | 8                  | 5    | 37          | 15   |
| Commodity        | Cost of sales         | 17                      | 19   | 38          | 48   | (33 )              | (2 ) | 8           | 27   |
|                  |                       |                         |      |             |      | (19 )              | 3    | 50          | 48   |
| Not deferred     |                       |                         |      |             |      |                    |      |             |      |
| Foreign currency | Other deductions, net | 50                      | 8    | 122         | 14   |                    |      |             |      |
| Commodity        | Cost of sales         | (2 )                    | (1 ) | (1 )        | (1 ) |                    |      |             |      |
|                  |                       | \$ 66                   | 34   | 155         | 85   |                    |      |             |      |

Regardless of whether or not derivatives receive deferral accounting, the Company expects hedging gains or losses to be essentially offset by losses or gains on the related underlying exposures. The amounts ultimately recognized will differ from those presented above for open positions which remain subject to ongoing market price fluctuations until settlement. Derivatives receiving deferral accounting are highly effective, no amounts were excluded from the assessment of hedge effectiveness, and hedge ineffectiveness was immaterial for both the three and nine month periods ended June 30, 2011 and 2010, including gains or losses on derivatives that were discontinued because forecasted transactions were no longer expected to occur.

Fair Value Measurements – Valuations for all of Emerson's derivatives fall within Level 2 of the GAAP valuation hierarchy and are summarized below (in millions):

| Exposure         | Sept 30, 2010 |             | June 30, 2011 |             |
|------------------|---------------|-------------|---------------|-------------|
|                  | Assets        | Liabilities | Assets        | Liabilities |
| Foreign Currency | \$ 67         | (50 )       | 33            | (15 )       |
| Commodity        | \$ 31         | (3 )        | 12            | (4 )        |

At June 30, 2011, commodity contracts and foreign currency contracts were reported in current assets. The Company neither posted nor held collateral with counterparties as of June 30, 2011. The maximum collateral the Company could have been required to post as of June 30, 2011 was \$3 million. As of June 30, 2011, the fair value of long-term debt was \$5,057 million, which exceeded the carrying value by \$453 million.



## EMERSON ELECTRIC CO. AND SUBSIDIARIES

Items 2 and 3.

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

## OVERVIEW

The Company achieved strong sales and earnings results in the third quarter of 2011 compared to the prior year, aided by improved economic conditions in industrial end markets and repositioning efforts in previous periods. Worldwide gross fixed investment continues to recover; however, the Company has seen a clear weakening trend in business conditions in the U.S. and Europe. Emerson believes the industrial-led recovery will continue, although the pace and momentum have slowed. Consumer and residential construction spending remain weak. Third quarter consolidated sales were up 16 percent on growth in all segments and major geographic regions, including the favorable impact of acquisitions. Earnings increased for Industrial Automation, Process Management, Climate Technologies and Tools and Storage due to strong sales growth and resulting volume leverage and benefits from repositioning efforts in prior periods. Earnings declined in the Network Power segment on weakness in the embedded power and computing businesses and the Network Power business in Asia, as well as increased amortization costs from recent acquisitions. Emerson's financial position remains strong and the Company continues to generate substantial operating cash flow.

## THREE MONTHS ENDED JUNE 30, 2011 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2010

Following is an analysis of the Company's operating results for the third quarter ended June 30, 2011, compared with the third quarter ended June 30, 2010.

## RESULTS OF OPERATIONS

| Three months ended June 30<br>(dollars in millions, except per share amounts) | 2010    | 2011   | Change |   |
|---|---------|--------|--------|---|
| Net sales   | \$5,417 | 6,288  | 16     | % |
| Gross profit  | \$2,164 | 2,498  | 15     | % |
| Percent of sales  | 40.0    | % 39.7 | %      |   |
| SG&A  | \$1,168 | 1,363  |        |   |
| Percent of sales  | 21.6    | % 21.6 | %      |   |
| Other deductions, net   | \$69    | 87     |        |   |
| Interest expense, net   | \$64    | 56     |        |   |
| Earnings from continuing operations before income taxes                       | \$863   | 992    | 15     | % |
| Percent of sales  | 15.9    | % 15.8 | %      |   |
| Earnings from continuing operations common stockholders                       | \$581   | 683    | 18     | % |
| Net earnings common stockholders  | \$585   | 683    | 17     | % |
| Percent of sales  | 10.8    | % 10.9 | %      |   |
| Diluted EPS – Earnings from continuing operations                             | \$0.76  | 0.90   | 18     | % |
| Diluted EPS – Net earnings  | \$0.77  | 0.90   | 17     | % |

Net sales for the quarter ended June 30, 2011 were \$6,288 million, an increase of \$871 million, or 16 percent, compared with net sales of \$5,417 million for the quarter ended June 30, 2010. Consolidated results reflect a 10 percent (\$530 million) increase in underlying sales (which exclude acquisitions and foreign currency translation), a 4 percent (\$194 million) increase from foreign currency translation and a 2 percent (\$147 million) favorable impact

from acquisitions. The 10 percent increase in underlying sales reflects 9 percent volume growth and an estimated 1 percent benefit from higher selling prices. Underlying sales increased 6 percent in the United States and 13 percent internationally, including Asia (12 percent), Europe (9 percent), Middle East/Africa (26 percent), Latin America (17 percent) and Canada (20 percent). Sales increased in all business segments, led by Process Management, Industrial Automation and Network Power, which were up \$278 million, \$267 million and \$265 million, respectively.

## EMERSON ELECTRIC CO. AND SUBSIDIARIES

Costs of sales for the third quarters of 2011 and 2010 were \$3,790 million and \$3,253 million, respectively. Gross profit of \$2,498 million and \$2,164 million, respectively, resulted in gross margins of 39.7 percent and 40.0 percent. The increase in gross profit reflects higher volume and leverage, foreign currency translation and acquisitions, while higher materials costs more than offset the increase in prices. The modest decline in gross margin reflects materials cost pressures which are expected to persist for the remainder of the year. The Company is working to mitigate the effect of higher materials costs through pricing actions.

Selling, general and administrative (SG&A) expenses for the third quarter of 2011 were \$1,363 million, or 21.6 percent of net sales, an increase of \$195 million compared with \$1,168 million, or 21.6 percent, for 2010. The increase was largely due to higher sales volume, foreign currency translation and the impact of acquisitions. SG&A as a percent of sales was flat as volume leverage and cost reduction savings were offset by a \$13 million increase in incentive stock compensation expense related to changes in the Company's stock price and higher wage and other costs.

Other deductions, net were \$87 million for the third quarter of 2011, an \$18 million increase from the prior year, primarily due to increased amortization expense on acquired intangible assets and lower gains on foreign currency transactions, slightly offset by lower rationalization expense. See Notes 5 and 6 for further details regarding other deductions, net and rationalization costs.

Pretax earnings from continuing operations of \$992 million for 2011 increased \$129 million, or 15 percent, compared with \$863 million for 2010, primarily due to higher sales and resulting leverage, savings from prior period cost reductions, higher selling prices and lower interest expense, partially offset by increased materials and wage costs and higher other deductions. Earnings results reflect increases of \$68 million in Industrial Automation, \$55 million in Process Management and \$7 million in Climate Technologies.

Income taxes were \$294 million and \$266 million for 2011 and 2010, respectively, resulting in effective tax rates of 30 percent and 31 percent. The effective tax rate for fiscal year 2011 is estimated to be approximately 31 percent.

Earnings and earnings per share from continuing operations common stockholders were \$683 million and \$0.90 for the third quarter of 2011, both increases of 18 percent compared with \$581 million and \$0.76 for 2010.

Net earnings common stockholders were \$683 million and net earnings per share were \$0.90 for the third quarter of 2011, both increases of 17 percent, compared with \$585 million and \$0.77 for 2010. Net earnings for 2010 included earnings from discontinued operations of \$4 million related to the divested Motors and LANDesk businesses.

## BUSINESS SEGMENTS

Following is an analysis of operating results for the Company's business segments for the third quarter ended June 30, 2011, compared with the third quarter ended June 30, 2010. The Company defines segment earnings as earnings before interest and taxes.

## Process Management

| Three months ended June 30<br>(dollars in millions) | 2010     | 2011  | Change |   |
|---|----------|-------|--------|---|
| Sales   | \$ 1,511 | 1,789 | 18     | % |
| Earnings  | \$ 311   | 366   | 18     | % |

|        |      |   |      |   |
|--------|------|---|------|---|
| Margin | 20.6 | % | 20.4 | % |
|--------|------|---|------|---|

Process Management third quarter sales increased 18 percent to \$1,789 million as all businesses reported higher sales due to improvement in the capital intensive end markets served by this segment. Very strong sales growth in the measurement and flow business, the valves business and the systems and solutions business was the result of growth in the oil and gas, chemical, power and refining end markets. Underlying sales increased 13 percent from higher volume and foreign currency translation had a 5 percent (\$74 million) favorable impact. Underlying sales increased 16 percent in the United States, 17 percent in Asia, 23 percent in Middle East/Africa, 39 percent in Canada and 6 percent in Latin America, while sales declined 1 percent in Europe. Earnings results were led by

## EMERSON ELECTRIC CO. AND SUBSIDIARIES

very strong results in the measurement and flow business and increased 18 percent for the period to \$366 million, primarily due to the higher sales volume and favorable foreign currency translation. Margin declined slightly as increased business development investments, wages and other costs, and a \$7 million unfavorable impact from foreign currency transactions were effectively offset by savings from prior period cost reductions and volume leverage.

## Industrial Automation

| Three months ended June 30<br>(dollars in millions) | 2010     | 2011   | Change |   |
|---|----------|--------|--------|---|
| Sales   | \$ 1,124 | 1,391  | 24     | % |
| Earnings  | \$ 162   | 230    | 43     | % |
| Margin  | 14.4 %   | 16.6 % |        |   |

Sales increased 24 percent to \$1,391 million in the third quarter for Industrial Automation due to improvement in capital goods end markets. Sales and earnings increased in all businesses led by very strong growth in the power generating alternators, fluid automation, electrical drives and power transmission businesses. Underlying sales grew 18 percent, reflecting approximately 14 percent volume growth and an estimated 4 percent benefit from higher selling prices. Foreign currency translation had a 5 percent (\$56 million) favorable impact and acquisitions contributed 1 percent (\$7 million). Underlying sales increased in all major geographic regions, including 11 percent in the United States, 21 percent in Europe, 20 percent in Asia, 53 percent in Middle East/Africa and 23 percent in Latin America. Earnings were \$230 million, compared with \$162 million in the prior year, and margin increased 2 percentage points, primarily reflecting higher sales volume, the resulting leverage, and savings from prior period cost reductions. Higher materials costs were offset by higher selling prices.

## Network Power

| Three months ended June 30<br>(dollars in millions) | 2010     | 2011   | Change |    |
|---|----------|--------|--------|----|
| Sales   | \$ 1,418 | 1,683  | 19     | %  |
| Earnings  | \$ 181   | 176    | (3)    | %) |
| Margin  | 12.8 %   | 10.4 % |        |    |

Sales for Network Power increased 19 percent to \$1,683 million for the third quarter compared with the prior year, including a 9 percent (\$131 million) contribution from the Chloride acquisition, underlying sales growth of 7 percent and a 3 percent (\$37 million) favorable impact from foreign currency translation. Underlying sales growth reflects 8 percent from higher volume, less an estimated 1 percent decline from pricing, and was led by strong results in the network power systems business worldwide, including solid growth in the North American uninterruptible power supply and precision cooling business, as well as the embedded power and energy systems businesses. Underlying sales increased 7 percent in Asia, 5 percent in the United States, 4 percent in Europe and 16 percent in Latin America. Earnings of \$176 million decreased 3 percent compared to the prior year while margin declined over 2 percentage points. The China market continues to be challenging due to higher labor-related costs and aggressive competitive pricing in the telecommunications sector compared to the prior year. Segment margin was negatively affected by unfavorable product mix, lower volume in the embedded computing business and investment spending on next-generation data center technologies, partially offset by volume leverage. In addition, increased amortization of \$16 million from the Chloride acquisition negatively impacted margin by approximately 1.0 percentage point. Although sequential quarterly margin improvement is expected, these challenges are anticipated to continue for the

remainder of the fiscal year.

12

---



## EMERSON ELECTRIC CO. AND SUBSIDIARIES

## Climate Technologies

| Three months ended June 30<br>(dollars in millions) | 2010     | 2011   | Change |   |
|---|----------|--------|--------|---|
| Sales   | \$ 1,106 | 1,171  | 6      | % |
| Earnings  | \$ 222   | 229    | 3      | % |
| Margin  | 20.1 %   | 19.6 % |        |   |

Climate Technologies sales increased 6 percent in the third quarter to \$1,171 million, reflecting a strong sales increase in the worldwide compressor business, partially offset by a decline in the North American temperature controls business which was affected by share loss. Growth in North American end markets was up slightly for refrigeration and air conditioning, while growth in Asia was strong, despite difficult comparisons resulting from prior year stimulus programs in China to support higher efficiency standards. Growth reflects an underlying sales increase of 3 percent, including approximately 1 percent from higher volume and over 2 percent from higher selling prices, a 2 percent (\$20 million) positive impact from foreign currency translation, and a 1 percent (\$9 million) favorable impact from acquisitions. Underlying sales increased 11 percent internationally, including 9 percent in Asia and 7 percent in Europe, while underlying sales decreased 3 percent in the United States. Earnings increased 3 percent to \$229 million due to savings from prior period cost reductions and higher sales volume, partially offset by lost volume and resulting deleverage in the temperature controls business. Higher materials costs were substantially offset by higher selling prices; material cost pressures remain a challenge.

## Tools and Storage

| Three months ended June 30<br>(dollars in millions) | 2010   | 2011   | Change |   |
|---|--------|--------|--------|---|
| Sales   | \$ 452 | 472    | 4      | % |
| Earnings  | \$ 94  | 96     | 1      | % |
| Margin  | 20.9 % | 20.2 % |        |   |

Tools and Storage segment sales increased 4 percent to \$472 million in the third quarter, reflecting a 3 percent increase in underlying sales and a 1 percent (\$7 million) favorable impact from foreign currency translation. Underlying sales growth reflects approximately 1 percent from higher volume and an estimated 2 percent from higher selling prices. The sales increase was led by very strong growth in the professional tools business as well as solid growth in the commercial storage and food waste disposers businesses, partially offset by a decrease in the consumer-related wet/dry vacuums and residential storage businesses. U.S. residential construction markets remain weak. Underlying sales increased 2 percent in the United States and 5 percent internationally. Earnings of \$96 million were up 1 percent compared to the prior year, reflecting an increase in the professional tools business offset by decreases in the residential storage and wet/dry vacuums businesses. Margin was negatively affected by unfavorable product mix in the residential storage business and higher materials costs which were nearly offset by higher selling prices.

## EMERSON ELECTRIC CO. AND SUBSIDIARIES

## NINE MONTHS ENDED JUNE 30, 2011 COMPARED WITH NINE MONTHS ENDED JUNE 30, 2010

Following is an analysis of the Company's operating results for the nine months ended June 30, 2011, compared with the nine months ended June 30, 2010.

## RESULTS OF OPERATIONS

| Nine months ended June 30<br>(dollars in millions, except per share amounts) | 2010     | 2011   | Change |   |
|--|----------|--------|--------|---|
| Net sales  | \$15,198 | 17,677 | 16     | % |
| Gross profit   | \$5,995  | 6,967  | 16     | % |
| Percent of sales   | 39.4 %   | 39.4 % |        |   |
| SG&A   | \$3,505  | 3,989  |        |   |
| Percent of sales   | 23.0 %   | 22.6 % |        |   |
| Other deductions, net  | \$253    | 266    |        |   |
| Interest expense, net  | \$196    | 174    |        |   |
| Earnings from continuing operations before income taxes                      | \$2,041  | 2,538  | 24     | % |
| Percent of sales   | 13.4 %   | 14.4 % |        |   |
| Earnings from continuing operations common stockholders                      | \$1,406  | 1,719  | 22     | % |
| Net earnings common stockholders   | \$1,415  | 1,719  | 21     | % |
| Percent of sales   | 9.3 %    | 9.7 %  |        |   |
| Diluted EPS – Earnings from continuing operations                            | \$1.85   | 2.26   | 22     | % |
| Diluted EPS – Net earnings   | \$1.86   | 2.26   | 22     | % |

Net sales for the nine months ended June 30, 2011 were \$17,677 million, an increase of \$2,479 million, or 16 percent, compared with net sales of \$15,198 million for the prior year. Sales increased in all segments led by Network Power, Industrial Automation and Process Management, which were up \$818 million, \$789 million and \$663 million, respectively. Consolidated results reflect a 12 percent (\$1,715 million) increase in underlying sales, a 3 percent (\$552 million) increase from acquisitions and a 1 percent (\$212 million) favorable impact from foreign currency translation. Underlying sales increased 13 percent internationally and 10 percent in the United States, reflecting volume gains and an estimated 1 percent benefit from higher selling prices. International sales increased in all major geographic regions, including Asia (10 percent), Europe (12 percent), Latin America (19 percent), Middle East/Africa (17 percent) and Canada (22 percent).

Costs of sales for the nine months of 2011 and 2010 were \$10,710 million and \$9,203 million, respectively. Gross profit of \$6,967 million and \$5,995 million, respectively, resulted in gross margins of 39.4 percent for both periods. The increase in gross profit primarily reflects higher volume and leverage, acquisitions and savings from cost reduction actions in prior periods. Higher materials costs were partially offset by price increases.

Selling, general and administrative expenses for the nine months of 2011 were \$3,989 million, or 22.6 percent of net sales, an increase of \$484 million compared with \$3,505 million, or 23.0 percent, for 2010. The increase was largely due to higher sales volume and the impact of acquisitions. The decrease in SG&A as a percent of sales was due to volume leverage and cost reduction savings, partially offset by acquisitions and higher wage and other costs.

Other deductions, net were \$266 million for the nine months of 2011, a \$13 million increase from the same period in the prior year. Higher amortization expense on acquired intangible assets and losses on foreign currency transactions

were partially offset by lower rationalization expense, a \$15 million gain in the second quarter of this fiscal year related to the acquisition of full ownership of a joint venture in India and lower acquisition costs. See Notes 5 and 6 for further details regarding other deductions, net and rationalization costs.

Pretax earnings from continuing operations of \$2,538 million for 2011 increased \$497 million, or 24 percent, compared with \$2,041 million for 2010, primarily due to higher sales and resulting leverage, cost reduction savings and lower interest expense, slightly offset by higher materials and wage costs and other deductions. Earnings

## EMERSON ELECTRIC CO. AND SUBSIDIARIES

increased \$224 million in Industrial Automation, \$184 million in Process Management and \$41 million in Climate Technologies.

Income taxes were \$782 million and \$594 million for 2011 and 2010, respectively, resulting in effective tax rates of 31 percent and 29 percent. The increase in the effective tax rate primarily reflects a change in profit mix as U.S. operating results improved more than international, lower benefits from tax holidays, and a prior year \$30 million capital loss tax benefit resulting from restructuring at a foreign subsidiary. The effective tax rate for fiscal year 2011 is estimated to be approximately 31 percent.

Earnings and earnings per share from continuing operations common stockholders were \$1,719 million and \$2.26 for the nine months of 2011, both increases of 22 percent, compared with \$1,406 million and \$1.85 for 2010.

Net earnings common stockholders were \$1,719 million and net earnings per share were \$2.26 for 2011, increases of 21 percent and 22 percent, respectively, compared with \$1,415 million and \$1.86 for 2010. Net earnings for 2010 included earnings from discontinued operations of \$9 million related to the divested Motors and LANDesk businesses.

## BUSINESS SEGMENTS

Following is an analysis of operating results for the Company's business segments for the nine months ended June 30, 2011, compared with the nine months ended June 30, 2010. The Company defines segment earnings as earnings before interest and taxes.

## Process Management

| Nine months ended June 30<br>(dollars in millions) | 2010     | 2011   | Change |
|--|----------|--------|--------|
| Sales  | \$ 4,321 | 4,984  | 15 %   |
| Earnings   | \$ 768   | 952    | 24 %   |
| Margin   | 17.8 %   | 19.1 % |        |

Process Management sales for the nine months increased 15 percent to \$4,984 million as all businesses reported higher sales and all but the systems and solutions business reported higher earnings due to improvement in the capital intensive end markets served by this segment. Sales growth was very strong for the measurement and flow business, valves business and systems and solutions business as a result of growth in the oil and gas, chemical, power and refining end markets. Underlying sales increased 13 percent on higher volume, which includes slight market penetration gains, and foreign currency translation had a 2 percent (\$89 million) favorable impact. Underlying sales increased in all major geographic regions, including the United States (15 percent), Asia (14 percent), Canada (43 percent), Latin America (15 percent), Europe (4 percent) and Middle East/Africa (8 percent). Earnings increased 24 percent to \$952 million and margin improved primarily due to higher sales volume and resulting leverage, savings from prior period cost reductions, and \$14 million lower restructuring expense, partially offset by increased business development investments, wages and other costs, and a \$20 million unfavorable impact from foreign currency transactions compared to prior year when the U.S. dollar was strengthening.

## Industrial Automation

| Nine months ended June 30<br>(dollars in millions) | 2010 | 2011 | Change |
|--|------|------|--------|
|--|------|------|--------|

|          |          |       |      |   |
|----------|----------|-------|------|---|
| Sales    | \$ 3,120 | 3,909 | 25   | % |
| Earnings | \$ 401   | 625   | 56   | % |
| Margin   | 12.8     | %     | 16.0 | % |

Sales increased 25 percent to \$3,909 million in Industrial Automation for the nine months due to improvement in the capital goods end markets. Sales increased in all businesses led by very strong growth in the power generating

## EMERSON ELECTRIC CO. AND SUBSIDIARIES

alternators, electrical drives, fluid automation and power transmission businesses. Underlying sales increased 23 percent, foreign currency translation had a 1 percent (\$40 million) favorable impact and the SSB acquisition added 1 percent (\$25 million). The underlying sales growth reflects approximately 20 percent higher volume and an estimated 3 percent benefit from higher selling prices. Underlying sales increased in all regions, including 21 percent in the United States, 25 percent in Europe, 22 percent in Asia, 48 percent in Middle East/Africa and 41 percent in Latin America. Earnings were \$625 million, compared with \$401 million in the prior year, and margin increased 3 percentage points, reflecting higher sales volume and resulting leverage, savings from prior period cost reductions, and lower restructuring costs of \$26 million, slightly offset by \$7 million of unfavorable foreign currency transactions due to prior year strengthening of the U.S. dollar. Higher materials costs were substantially offset by higher selling prices.

## Network Power

| Nine months ended June 30<br>(dollars in millions) | 2010     | 2011   | Change |   |
|--|----------|--------|--------|---|
| Sales  | \$ 4,150 | 4,968  | 20     | % |
| Earnings   | \$ 545   | 508    | (7)    | % |
| Margin   | 13.1 %   | 10.2 % |        |   |

Sales for Network Power increased 20 percent to \$4,968 million for 2011 led by the Chloride and Avocent acquisitions which contributed 12 percent (\$509 million), plus underlying sales growth of 7 percent and a favorable impact from foreign currency translation of 1 percent (\$55 million). Led by strong results in the network power systems business worldwide, including strong growth in the North American uninterruptible power supply and precision cooling business, as well as the embedded power business, underlying sales growth reflects 8 percent from higher volume, less an estimated 1 percent decline in pricing. Underlying sales increased 7 percent in the United States, 5 percent in Asia, 5 percent in Europe, 16 percent in Latin America and 47 percent in Middle East/Africa. Earnings of \$508 million decreased 7 percent along with a 3 percentage point margin decrease. The China market continues to be challenging due to higher labor-related costs and aggressive competitive pricing in the telecommunications sector compared to prior year. Margin was negatively impacted by higher materials cost (including inventory expediting costs), unfavorable product mix and investment spending on next-generation data center technologies, partially offset by volume leverage and savings from prior period cost reductions. In addition, increased amortization of \$57 million from the Chloride and Avocent acquisitions plus other Chloride acquisition-related costs of \$27 million negatively impacted margin by approximately 1.7 percentage points in total.

## Climate Technologies

| Nine months ended June 30<br>(dollars in millions) | 2010     | 2011   | Change |   |
|--|----------|--------|--------|---|
| Sales  | \$ 2,798 | 2,995  | 7      | % |
| Earnings   | \$ 498   | 539    | 8      | % |
| Margin   | 17.8 %   | 18.0 % |        |   |

Climate Technologies sales increased 7 percent in the nine months to \$2,995 million, reflecting a strong increase in the compressor business, partially offset by declines in the temperature controls business, including share loss, and the temperature sensors business. The North American refrigeration and air conditioning end markets experienced solid growth while growth in Asia was especially strong given the prior year benefit from stimulus programs in China.

Sales growth reflects a 5 percent underlying increase, including approximately 4 percent from higher volume and an estimated over 1 percent from higher selling prices, a 1 percent (\$19 million) favorable impact from foreign currency translation and a 1 percent (\$18 million) positive contribution from acquisitions. Underlying sales increased 2 percent in the United States and 10 percent internationally, including 9 percent in both Asia and Europe. Earnings and margin improved due to higher selling prices, savings from prior period cost reductions and favorable product mix, partially offset by higher materials costs as well as lost volume and deleverage in the temperature controls business.

## EMERSON ELECTRIC CO. AND SUBSIDIARIES

## Tools and Storage

| Nine months ended June 30<br>(dollars in millions) | 2010     | 2011   | Change |   |
|--|----------|--------|--------|---|
| Sales  | \$ 1,308 | 1,373  | 5      | % |
| Earnings   | \$ 264   | 280    | 6      | % |
| Margin   | 20.2 %   | 20.4 % |        |   |

Tools and Storage segment sales increased 5 percent to \$1,373 million for the nine months of 2011. Sales growth reflects an underlying increase of 5 percent, including approximately 4 percent from higher volume and an estimated 1 percent from higher selling prices, a favorable foreign currency translation impact of 1 percent (\$9 million), and a negative 1 percent impact from outsourcing freight operations in 2010. The sales increase was led by very strong growth in the professional tools business and moderate growth in the commercial storage and food waste disposers businesses, partially offset by modest decreases in the consumer-related wet/dry vacuums and residential storage businesses due to continued weak U.S. residential construction markets. Underlying sales increased 3 percent in the United States and 9 percent internationally, while earnings increased 6 percent to \$280 million, reflecting earnings growth in the professional tools business partially offset by lower earnings in the residential storage, wet/dry vacuums and food waste disposers businesses. Margin increased due to savings from prior period cost reductions as well as higher sales volume and resulting leverage in the professional tools business, largely offset by higher freight costs. Higher materials costs were substantially offset by price increases.

## FINANCIAL CONDITION

Key elements of the Company's financial condition for the nine months ended June 30, 2011 as compared to the year ended September 30, 2010 and the nine months ended June 30, 2010 follow:

|                               | Sept 30,<br>2010 | June 30,<br>2011 |  |  |
|-------------------------------|------------------|------------------|--|--|
| Working capital (in millions) | \$ 2,514         | 2,975            |  |  |
| Current ratio                 | 1.4 to 1         | 1.5 to 1         |  |  |
| Total debt-to-total capital   | 34.1 %           | 32.5 %           |  |  |
| Net debt-to-net capital       | 26.2 %           | 24.1 %           |  |  |
| Interest coverage ratio       | 11.3 X           | 14.3 X           |  |  |

The Company's interest coverage ratio (earnings from continuing operations before income taxes and interest expense, divided by interest expense) was 14.3X for the nine months of 2011, compared with 10.7X for the prior year, primarily due to higher earnings and lower average borrowings in 2011. Financial ratios remain strong and the Company has repositioned itself for future growth after investing \$3 billion in strategic acquisitions and completing divestitures in fiscal 2010.

Cash and equivalents increased \$189 million during the nine months of 2011. Cash provided by operating activities of \$1,978 million was down \$44 million compared with \$2,022 million in the prior year period as increased earnings and lower pension funding were offset by an increase in operating working capital. With resumption of growth in the current year, additional investment in working capital has been necessary. Operating cash flow and an increase in short-term borrowings of \$198 million funded dividends of \$781 million, treasury stock purchases of \$495 million, capital expenditures of \$403 million and purchases of businesses of \$228 million. For the nine months ended June 30, 2011, free cash flow of \$1,575 million (operating cash flow of \$1,978 million less capital expenditures of \$403



million) was down \$147 million from free cash flow of \$1,722 million (operating cash flow of \$2,022 million less capital expenditures of \$300 million) in the prior year period.

In December 2010, the Company entered into a \$2.75 billion four-year revolving backup credit facility with various banks, which replaced a \$2.83 billion five-year revolving credit facility dated April 2006. The facility is maintained to support general corporate purposes, including commercial paper borrowings, and the Company has not previously incurred any borrowings under this or similar facilities. The credit facility contains no financial covenants and is not subject to termination based on a change in credit rating or material adverse changes. The facility is unsecured and

## EMERSON ELECTRIC CO. AND SUBSIDIARIES

may be accessed under various interest rate and currency denomination alternatives at the Company's option. Emerson pays inconsequential annual fees on the facility, based on the aggregate amount available for borrowing.

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

## FISCAL 2011 OUTLOOK

Based on the Company's performance in the nine months and current visibility, fiscal 2011 diluted earnings per share are forecast to be in the range of \$3.20 to \$3.30, with fiscal 2011 sales forecast in the range of \$24.3 billion to \$24.8 billion, an increase of 15 to 18 percent compared with 2010 sales of \$21.0 billion. Underlying sales are expected to increase in the range of 10 percent to 13 percent, which excludes estimated favorable increases of 3 percent from completed acquisitions and 2 percent from foreign currency translation at current exchange rates. Underlying sales growth is tracking toward the lower end of the current range based on the order trends from the last two months. Rationalization of operations expense is estimated to be approximately \$80 million to \$90 million, operating cash flow is targeted at approximately \$3.3 billion to \$3.5 billion and capital expenditures are estimated at approximately \$0.6 billion.

Statements in this report that are not strictly historical may be "forward-looking" statements, which involve risks and uncertainties, and Emerson undertakes no obligation to update any such statements to reflect later developments. These risks and uncertainties include economic and currency conditions, market demand, pricing, and competitive and technological factors, among others which are set forth in the "Risk Factors" of Part I, Item 1, and the "Safe Harbor Statement" of Exhibit 13, to the Company's Annual Report on Form 10-K for the year ended September 30, 2010, which are hereby incorporated by reference.

## Item 4. Controls and Procedures

Emerson maintains a system of disclosure controls and procedures which are designed to ensure that information required to be disclosed by the Company in the reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including the Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure. Based on an evaluation performed, the Company's certifying officers have concluded that the disclosure controls and procedures were effective as of June 30, 2011, to provide reasonable assurance of the achievement of these objectives.

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

There was no change in the Company's internal control over financial reporting during the quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



## EMERSON ELECTRIC CO. AND SUBSIDIARIES

## PART II. OTHER INFORMATION

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

## (c) Issuer Purchases of Equity Securities.

| Period     | Total Number of Shares Purchased (000s) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (000s) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (000s) |
|------------|---|------------------------------|---|---|
| April 2011 | 1,000                                   | \$58.35                      | 1,000   | 45,130  |
| May 2011   | 2,325                                   | \$54.51                      | 2,325   | 42,805  |
| June 2011  | 2,725                                   | \$52.74                      | 2,725   | 40,080  |
| Total      | 6,050                                   | \$54.35                      | 6,050   | 40,080  |

The Company's Board of Directors authorized the repurchase of up to 80 million shares under the May 2008 program.

## Item 6. Exhibits.

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

12Ratio of Earnings to Fixed Charges.

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

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

101Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Earnings for the three and nine months ended June 30, 2010 and 2011, (ii) Consolidated Balance Sheets at September 30, 2010 and June 30, 2011, (iii) Consolidated Statements of Cash Flows for the nine months ended June 30, 2010 and 2011, and (iv) Notes to Consolidated Financial Statements for the three and nine months ended June 30, 2011. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, and shall not be deemed "filed" or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act or the Exchange Act, or otherwise subject to liability under those sections, except as shall be expressly set forth by specific reference in such filing.

EMERSON ELECTRIC CO. AND SUBSIDIARIES

SIGNATURE

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

EMERSON ELECTRIC CO.

Date: August 3, 2011                      By                                      /s/ Frank J. Dellaquila  
Frank J. Dellaquila  
Senior Vice President and Chief Financial Officer  
(on behalf of the registrant and as Chief Financial Officer)

INDEX TO EXHIBITS

| Exhibit No. | Exhibit   |
|-------------|---|
| 12          | Ratio of Earnings to Fixed Charges.   |
| 31          | Certifications pursuant to Exchange Act Rule 13a-14(a).   |
| 32          | Certifications pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.  |
| 101         | Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Earnings for the three and nine months ended June 30, 2010 and 2011, (ii) Consolidated Balance Sheets at September 30, 2010 and June 30, 2011, (iii) Consolidated Statements of Cash Flows for the nine months ended June 30, 2010 and 2011, and (iv) Notes to Consolidated Financial Statements for the three and nine months ended June 30, 2011. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, and shall not be deemed "filed" or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act or the Exchange Act, or otherwise subject to liability under those sections, except as shall be expressly set forth by specific reference in such filing. |