

EMERSON ELECTRIC CO  
Form 10-Q  
May 04, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended March 31, 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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common stock of \$0.50 par value per share outstanding at April 30, 2011: 751,671,463 shares.

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FORM 10-Q

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

EMERSON ELECTRIC CO. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
THREE AND SIX MONTHS ENDED MARCH 31, 2010 AND 2011  
(Dollars in millions, except per share amounts; unaudited)

|   | Three Months Ended<br>March 31, |       | Six Months Ended<br>March 31, |        |
|---|---------------------------------|-------|-------------------------------|--------|
|   | 2010                            | 2011  | 2010                          | 2011   |
| Net sales   | \$4,953                         | 5,854 | 9,781                         | 11,389 |
| Costs and expenses:   |                                 |       |                               |        |
| Cost of sales   | 2,990                           | 3,548 | 5,950                         | 6,920  |
| Selling, general and administrative expenses                                      | 1,203                           | 1,315 | 2,337                         | 2,626  |
| Other deductions, net   | 92                              | 101   | 184                           | 179    |
| Interest expense (net of interest income of \$6, \$6, \$9 and \$11, respectively) | 67                              | 57    | 132                           | 118    |
| Earnings from continuing operations before income taxes                           | 601                             | 833   | 1,178                         | 1,546  |
| Income taxes  | 180                             | 266   | 328                           | 488    |
| Earnings from continuing operations   | 421                             | 567   | 850                           | 1,058  |
| Discontinued operations, net of tax   | (3 )                            | -     | 5                             | -      |
| Net earnings  | 418                             | 567   | 855                           | 1,058  |
| Less: Noncontrolling interests in earnings of subsidiaries                        | 13                              | 11    | 25                            | 22     |
| Net earnings common stockholders  | \$405                           | 556   | 830                           | 1,036  |
| Earnings common stockholders:   |                                 |       |                               |        |
| Earnings from continuing operations   | \$408                           | 556   | 825                           | 1,036  |
| Discontinued operations, net of tax   | (3 )                            | -     | 5                             | -      |
| Net earnings common stockholders  | \$405                           | 556   | 830                           | 1,036  |
| Basic earnings per share common stockholders:                                     |                                 |       |                               |        |
| Earnings from continuing operations   | \$0.54                          | 0.74  | 1.09                          | 1.37   |
| Discontinued operations   | -                               | -     | 0.01                          | -      |
| Basic earnings per common share   | \$0.54                          | 0.74  | 1.10                          | 1.37   |
| Diluted earnings per share common stockholders:                                   |                                 |       |                               |        |
| Earnings from continuing operations   | \$0.54                          | 0.73  | 1.09                          | 1.36   |

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|                                   |         |   |       |      |      |
|-----------------------------------|---------|---|-------|------|------|
| Discontinued operations           | (0.01   | ) | -     | -    | -    |
| Diluted earnings per common share | \$0.53  |   | 0.73  | 1.09 | 1.36 |
| Cash dividends per common share   | \$0.335 |   | 0.345 | 0.67 | 0.69 |

See accompanying Notes to Consolidated Financial Statements.

## FORM 10-Q

EMERSON ELECTRIC CO. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except share amounts; unaudited)

|  | Sept 30,<br>2010 | March 31,<br>2011 |
|--|------------------|-------------------|
| <b>ASSETS</b>  |                  |                   |
| Current assets   |                  |                   |
| Cash and equivalents   | \$ 1,592         | 1,593             |
| Receivables, less allowances of \$98 and \$104, respectively   | 3,989            | 4,231             |
| Inventories  | 2,105            | 2,324             |
| Other current assets   | 677              | 650               |
| Total current assets   | 8,363            | 8,798             |
| Property, plant and equipment, net   | 3,287            | 3,303             |
| Other assets   |                  |                   |
| Goodwill   | 8,656            | 8,905             |
| Other intangible assets  | 2,150            | 2,146             |
| Other  | 387              | 383               |
| Total other assets   | 11,193           | 11,434            |
| Total assets   | \$22,843         | 23,535            |
| <b>LIABILITIES AND EQUITY</b>  |                  |                   |
| Current liabilities  |                  |                   |
| Short-term borrowings and current maturities of long-term debt   | \$480            | 771               |
| Accounts payable   | 2,409            | 2,463             |
| Accrued expenses   | 2,864            | 2,582             |
| Income taxes   | 96               | 118               |
| Total current liabilities  | 5,849            | 5,934             |
| Long-term debt   | 4,586            | 4,353             |
| Other liabilities  | 2,456            | 2,443             |
| 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 752,561,758 shares, respectively | 477              | 477               |
| Additional paid-in capital   | 192              | 356               |
| Retained earnings  | 15,869           | 16,383            |
| Accumulated other comprehensive income   | (426 )           | (150 )            |
| Cost of common stock in treasury, 200,663,206 shares and 200,792,254 shares, respectively  | (6,320 )         | (6,421 )          |
| Common stockholders' equity  | 9,792            | 10,645            |
| Noncontrolling interests in subsidiaries   | 160              | 160               |

|                              |          |        |
|------------------------------|----------|--------|
| Total equity                 | 9,952    | 10,805 |
| Total liabilities and equity | \$22,843 | 23,535 |

See accompanying Notes to Consolidated Financial Statements.

3

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FORM 10-Q

EMERSON ELECTRIC CO. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED MARCH 31, 2010 AND 2011  
(Dollars in millions; unaudited)

|   | Six Months Ended<br>March 31, |        |
|---|-------------------------------|--------|
|   | 2010                          | 2011   |
| <b>Operating activities</b>   |                               |        |
| Net earnings  | \$855                         | 1,058  |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                               |        |
| Depreciation and amortization   | 402                           | 435    |
| Changes in operating working capital  | 33                            | (447 ) |
| Other   | 29                            | 29     |
| Net cash provided by operating activities   | 1,319                         | 1,075  |
| <b>Investing activities</b>   |                               |        |
| Capital expenditures  | (178 )                        | (208 ) |
| Purchases of businesses, net of cash and equivalents acquired                       | (1,340 )                      | (186 ) |
| Other   | 31                            | (33 )  |
| Net cash used in investing activities   | (1,487 )                      | (427 ) |
| <b>Financing activities</b>   |                               |        |
| Net increase in short-term borrowings   | 725                           | 107    |
| Proceeds from long-term debt  | 596                           | 1      |
| Principal payments on long-term debt  | (50 )                         | (55 )  |
| Dividends paid  | (504 )                        | (522 ) |
| Purchases of treasury stock   | (24 )                         | (176 ) |
| Other   | 49                            | (33 )  |
| Net cash provided by (used in) financing activities                                 | 792                           | (678 ) |
| Effect of exchange rate changes on cash and equivalents                             | (25 )                         | 31     |
| Increase in cash and equivalents  | 599                           | 1      |
| Beginning cash and equivalents  | 1,560                         | 1,592  |
| Ending cash and equivalents   | \$2,159                       | 1,593  |
| <b>Changes in operating working capital</b>   |                               |        |
| Receivables   | \$(6 )                        | (118 ) |
| Inventories   | (163 )                        | (164 ) |
| Other current assets  | (17 )                         | 59     |
| Accounts payable  | 160                           | (9 )   |
| Accrued expenses  | (5 )                          | (199 ) |
| Income taxes  | 64                            | (16 )  |

|  |      |        |
|--|------|--------|
| Total changes in operating working capital | \$33 | (447 ) |
|--|------|--------|

See accompanying Notes to Consolidated Financial Statements.



EMERSON ELECTRIC CO. AND  
SUBSIDIARIES

## FORM 10-Q

## 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 six month periods ended March 31, 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 arrangement 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 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 (shares in millions). Earnings allocated to participating securities were inconsequential.

|                            | Three Months Ended |       | Six Months Ended |       |
|----------------------------|--------------------|-------|------------------|-------|
|                            | March 31,          |       | March 31,        |       |
|                            | 2010               | 2011  | 2010             | 2011  |
| Basic shares outstanding   | 751.1              | 752.1 | 750.7            | 752.2 |
| Dilutive shares            | 6.3                | 5.2   | 5.7              | 5.5   |
| Diluted shares outstanding | 757.4              | 757.3 | 756.4            | 757.7 |

3. The change in equity for the first six 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               | 1,036                             | 22   | 1,058        |
| Other comprehensive income | 276                               | 4  | 280          |
| Cash dividends             | (522 )                            | (26 )  | (548 )       |

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|  |           |     |        |
|--|-----------|-----|--------|
| Net treasury stock purchases and other | 63        | -   | 63     |
| March 31, 2011                         | \$ 10,645 | 160 | 10,805 |

5

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EMERSON ELECTRIC CO. AND  
SUBSIDIARIES

## FORM 10-Q

Comprehensive income, net of applicable income taxes, for the three and six months ended March 31, 2011 and 2010 is summarized as follows (in millions):

|  | Three Months Ended<br>March 31, |       | Six Months Ended<br>March 31, |       |
|--|---------------------------------|-------|-------------------------------|-------|
|  | 2010                            | 2011  | 2010                          | 2011  |
| Net earnings                                   | \$ 418                          | 567   | 855                           | 1,058 |
| Foreign currency translation                   | (101 )                          | 301   | (94 )                         | 281   |
| Cash flow hedges and other                     | 9                               | (17 ) | 33                            | (1 )  |
|  | 326                             | 851   | 794                           | 1,338 |
| Less: Noncontrolling interests                 | 13                              | 13    | 26                            | 26    |
| Amounts attributable to common<br>stockholders | \$ 313                          | 838   | 768                           | 1,312 |

The change in foreign currency translation during the second quarter and first half 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 March 31, |       |                |      | Six months ended March 31, |        |                |      |
|-----------------------------------|------------------------------|-------|----------------|------|----------------------------|--------|----------------|------|
|                                   | Pension                      |       | Postretirement |      | Pension                    |        | Postretirement |      |
|                                   | 2010                         | 2011  | 2010           | 2011 | 2010                       | 2011   | 2010           | 2011 |
| Service cost                      | \$ 19                        | 20    | 1              | 1    | 38                         | 41     | 2              | 2    |
| Interest cost                     | 56                           | 56    | 6              | 5    | 111                        | 111    | 12             | 9    |
| Expected return<br>on plan assets | (77 )                        | (82 ) |                |      | (153 )                     | (164 ) |                |      |
| Net amortization                  | 34                           | 43    | 1              | (2 ) | 69                         | 85     | 1              | (4 ) |
| Total                             | \$ 32                        | 37    | 8              | 4    | 65                         | 73     | 15             | 7    |

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

|                               | Three Months Ended<br>March 31, |       | Six Months Ended<br>March 31, |       |
|-------------------------------|---------------------------------|-------|-------------------------------|-------|
|                               | 2010                            | 2011  | 2010                          | 2011  |
| Other deductions, net         |                                 |       |                               |       |
| Amortization of intangibles   | \$ 45                           | 64    | 80                            | 131   |
| Rationalization of operations | 36                              | 16    | 74                            | 33    |
| Other                         | 10                              | 40    | 33                            | 37    |
| (Gains)/losses, net           | 1                               | (19 ) | (3 )                          | (22 ) |
| Total                         | \$ 92                           | 101   | 184                           | 179   |

For both the three and six months ended March 31, 2011, higher amortization expense on acquired intangible assets was offset by lower rationalization expense. Other for the 2011 second quarter included increased losses on foreign currency transactions primarily due to the weakening of the U.S. dollar (\$20 million) and higher litigation costs compared with the prior year. Also during the second quarter of 2011, the Company recorded a \$15 million gain

related to the acquisition of full ownership of a Process Management joint venture in India.

6

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EMERSON ELECTRIC CO. AND  
SUBSIDIARIES

## FORM 10-Q

6. Rationalization of operations expense reflects costs associated with the Company's efforts to continuously 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 costs during the six months ended March 31, 2011 follows (in millions):

|  | Sept 30,<br>2010 | Expense | Paid/<br>Utilized | March 31,<br>2011 |
|--|------------------|---------|-------------------|-------------------|
| Severance and benefits                   | \$ 57            | 9       | 30                | 36                |
| Lease and other contract terminations    | 8                | 1       | 5                 | 4                 |
| Fixed asset write-downs                  | -                | 1       | 1                 | -                 |
| Vacant facility and other shutdown costs | 4                | 7       | 8                 | 3                 |
| Start-up and moving costs                | -                | 15      | 15                | -                 |
| Total                                    | \$ 69            | 33      | 59                | 43                |

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

|                       | Three Months Ended<br>March 31, |      | Six Months Ended<br>March 31, |      |
|-----------------------|---------------------------------|------|-------------------------------|------|
|                       | 2010                            | 2011 | 2010                          | 2011 |
| Process Management    | \$ 9                            | 2    | 16                            | 4    |
| Industrial Automation | 15                              | 5    | 33                            | 10   |
| Network Power         | 9                               | 5    | 16                            | 10   |
| Climate Technologies  | 2                               | 2    | 5                             | 6    |
| Tools and Storage     | 1                               | 2    | 4                             | 3    |
| Total                 | \$ 36                           | 16   | 74                            | 33   |

The Company expects to incur full year 2011 rationalization costs of approximately \$80 million to \$100 million, which includes the \$33 million shown above, as well as costs to complete actions initiated before the end of the second quarter and actions anticipated to be approved and initiated during the remainder of the year. Costs incurred during the first half 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 first half of 2011 included Industrial Automation consolidating production facilities within North America and Europe; Network Power reducing forcecount in North America, Europe and Asia; and Climate Technologies consolidating production facilities in North America.

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

|   | Sept 30,<br>2010 | March 31,<br>2011 |
|---|------------------|-------------------|
| <b>Inventories</b>                        |                  |                   |
| Finished products                         | \$ 746           | 810               |
| Raw materials and work in process         | 1,359            | 1,514             |
| Total                                     | \$ 2,105         | 2,324             |
| <b>Property, plant and equipment, net</b> |                  |                   |
| Property, plant and equipment, at cost    | \$ 8,307         | 8,583             |
| Less: Accumulated depreciation            | 5,020            | 5,280             |

|       |          |       |
|-------|----------|-------|
| Total | \$ 3,287 | 3,303 |
|-------|----------|-------|

7

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EMERSON ELECTRIC CO. AND  
SUBSIDIARIES

## FORM 10-Q

|                              | Sept 30,<br>2010 | March 31,<br>2011 |
|------------------------------|------------------|-------------------|
| Goodwill by business segment |                  |                   |
| Process Management           | \$ 2,274         | 2,378             |
| Industrial Automation        | 1,379            | 1,430             |
| Network Power                | 3,997            | 4,067             |
| Climate Technologies         | 464              | 484               |
| Tools and Storage            | 542              | 546               |
| Total                        | \$ 8,656         | 8,905             |

Changes in goodwill since September 30, 2010 are primarily due to foreign currency translation and the 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   | 551   |
| Advance customer payments                       | \$ 385   | 441   |
| Product warranty liability                      | \$ 224   | 221   |
| Other liabilities                               |          |       |
| Deferred income taxes                           | \$ 762   | 774   |
| Pension plans                                   | 612      | 605   |
| Postretirement plans, excluding current portion | 380      | 378   |
| Other   | 702      | 686   |
| Total   | \$ 2,456 | 2,443 |

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

|                                   | Three months ended March 31, |        |          |        | Six months ended March 31, |        |          |        |
|-----------------------------------|------------------------------|--------|----------|--------|----------------------------|--------|----------|--------|
|                                   | Sales                        |        | Earnings |        | Sales                      |        | Earnings |        |
|                                   | 2010                         | 2011   | 2010     | 2011   | 2010                       | 2011   | 2010     | 2011   |
| Process Management                | \$ 1,428                     | 1,653  | 241      | 296    | 2,810                      | 3,195  | 457      | 586    |
| Industrial Automation             | 1,010                        | 1,308  | 130      | 210    | 1,996                      | 2,518  | 239      | 395    |
| Network Power                     | 1,351                        | 1,616  | 158      | 150    | 2,732                      | 3,285  | 364      | 332    |
| Climate Technologies              | 908                          | 1,014  | 162      | 187    | 1,692                      | 1,824  | 276      | 310    |
| Tools and Storage                 | 422                          | 455    | 89       | 91     | 856                        | 901    | 170      | 184    |
|                                   | 5,119                        | 6,046  | 780      | 934    | 10,086                     | 11,723 | 1,506    | 1,807  |
| Differences in accounting methods |                              |        | 48       | 56     |                            |        | 92       | 109    |
| Corporate and other               |                              |        | (160 )   | (100 ) |                            |        | (288 )   | (252 ) |
| Eliminations/Interest             | (166 )                       | (192 ) | (67 )    | (57 )  | (305 )                     | (334 ) | (132 )   | (118 ) |
| Total                             | \$ 4,953                     | 5,854  | 601      | 833    | 9,781                      | 11,389 | 1,178    | 1,546  |

Intersegment sales of the Industrial Automation segment for the three months ended March 31, 2011 and 2010 were \$176 million and \$147 million, respectively, and \$302 million and \$264 million, respectively, for the six months ended March 31, 2011 and 2010. The decrease in Corporate and other for the 2011 second quarter and year to date periods primarily reflects lower incentive stock compensation expense of \$33 million for the quarter and \$15 million year to date due to a reduced impact from incentive stock plans overlap compared to prior year, the \$15 million gain related to the acquisition of full ownership of a joint venture in India in the 2011 second quarter, and lower acquisition-related costs versus the prior year.



EMERSON ELECTRIC CO. AND  
SUBSIDIARIES

## FORM 10-Q

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

Hedging Activities – The notional value of foreign currency hedge positions totaled approximately \$1.3 billion as of March 31, 2011. Commodity hedges outstanding at March 31, 2011 included a total of approximately 69 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 March 31, 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 six months ended March 31, 2011 and 2010 (in millions):

|                  | Location              | Gain/(Loss) to Earnings |      |            |      | Gain/(Loss) to OCI |      |            |      |
|------------------|-----------------------|-------------------------|------|------------|------|--------------------|------|------------|------|
|                  |                       | 2nd Quarter             |      | Six Months |      | 2nd Quarter        |      | Six Months |      |
|                  |                       | 2010                    | 2011 | 2010       | 2011 | 2010               | 2011 | 2010       | 2011 |
| Deferred         |                       |                         |      |            |      |                    |      |            |      |
| Foreign currency | Sales                 | \$ (1 )                 | 4    | (4 )       | 6    | (2 )               | 2    | (1 )       | 6    |
| Foreign currency | Cost of sales         | -                       | 5    | (1 )       | 10   | 13                 | 3    | 29         | 10   |
| Commodity        | Cost of sales         | 17                      | 19   | 21         | 29   | 19                 | (3 ) | 41         | 29   |
|                  |                       |                         |      |            |      | 30                 | 2    | 69         | 45   |
| Not deferred     |                       |                         |      |            |      |                    |      |            |      |
| Foreign currency | Other deductions, net | 62                      | -    | 72         | 6    |                    |      |            |      |
| Commodity        | Cost of sales         | -                       | (1 ) | 1          | -    |                    |      |            |      |
|                  |                       | \$ 78                   | 27   | 89         | 51   |                    |      |            |      |

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 six month periods ending March 31, 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         | September 30, 2010 |             | March 31, 2011 |             |
|------------------|--------------------|-------------|----------------|-------------|
|                  | Assets             | Liabilities | Assets         | Liabilities |
| Foreign Currency | \$ 67              | (50 )       | 41             | (18 )       |
| Commodity        | \$ 31              | (3 )        | 32             | (4 )        |

At March 31, 2011, commodity contracts and foreign currency contracts were reported in current assets. The Company held no collateral from counterparties as of March 31, 2011. The maximum collateral the Company could have been required to post as of March 31, 2011 was \$2 million. As of March 31, 2011, the fair value of long-term debt was \$4,958 million, which exceeded the carrying value by \$353 million.



EMERSON ELECTRIC CO. AND  
SUBSIDIARIES

## FORM 10-Q

## 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 second quarter of 2011 aided by improving economic conditions and repositioning efforts in previous periods. Worldwide gross fixed investment continues to recover. In the Company's served markets, industrial production and manufacturing activity have improved while residential construction remains weak. Second quarter consolidated sales increased due to growth in all segments and major geographic regions, as well as from acquisitions. Earnings increased for Process Management, Industrial Automation, Climate Technologies and Tools and Storage due to strong sales growth and resulting volume leverage and benefits from repositioning efforts in prior periods, while earnings declined in the Network Power segment primarily due to a slowdown in Asia for the Network Power business and 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 MARCH 31, 2011, COMPARED WITH THREE MONTHS ENDED MARCH 31, 2010

Following is an analysis of the Company's operating results for the second quarter ended March 31, 2011, compared with the second quarter ended March 31, 2010.

## RESULTS OF OPERATIONS

| Three months ended March 31<br>(dollars in millions, except per share amounts) | 2010    | 2011   | Change |   |
|--|---------|--------|--------|---|
| Net sales  | \$4,953 | 5,854  | 18     | % |
| Gross profit   | \$1,963 | 2,306  | 17     | % |
| Percent of sales   | 39.6    | % 39.4 | %      |   |
| SG&A   | \$1,203 | 1,315  |        |   |
| Percent of sales   | 24.3    | % 22.5 | %      |   |
| Other deductions, net  | \$92    | 101    |        |   |
| Interest expense, net  | \$67    | 57     |        |   |
| Earnings from continuing operations before income taxes                        | \$601   | 833    | 38     | % |
| Percent of sales   | 12.1    | % 14.2 | %      |   |
| Earnings from continuing operations common stockholders                        | \$408   | 556    | 36     | % |
| Net earnings common stockholders   | \$405   | 556    | 38     | % |
| Percent of sales   | 8.2     | % 9.5  | %      |   |
| Diluted EPS – Earnings from continuing operations                              | \$0.54  | 0.73   | 35     | % |
| Diluted EPS – Net earnings   | \$0.53  | 0.73   | 38     | % |

Net sales for the quarter ended March 31, 2011 were \$5,854 million, an increase of \$901 million, or 18 percent, compared with net sales of \$4,953 million for the quarter ended March 31, 2010. Consolidated results reflect a 14 percent (\$676 million) increase in underlying sales (which exclude acquisitions and foreign currency translation), a 3 percent (\$176 million) increase from acquisitions and a 1 percent (\$49 million) favorable impact from foreign currency translation. The 14 percent increase in underlying sales reflects 13 percent from higher volume and an

estimated 1 percent from higher selling prices. Underlying sales increased 13 percent in the United States and 15 percent internationally, including Europe (17 percent), Asia (10 percent), Latin America (26 percent), Canada (22 percent) and Middle East/Africa (13 percent). Sales increased in all segments led by Industrial Automation, Network Power and Process Management, which were up \$298, million, \$265 million and \$225 million, respectively.

Costs of sales for the second quarters of 2011 and 2010 were \$3,548 million and \$2,990 million, respectively. Gross profit of \$2,306 million and \$1,963 million, respectively, resulted in gross margins of 39.4 percent and 39.6 percent. The increase in gross profit primarily reflects higher volume and acquisitions. The decrease in gross margin is due to higher material costs and unfavorable product mix, partially offset by volume leverage, higher sales prices and savings from cost reduction actions in prior periods. Material cost pressures are expected to persist for

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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 second quarter of 2011 were \$1,315 million, or 22.5 percent of net sales, an increase of \$112 million compared with \$1,203 million, or 24.3 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, cost reduction savings and a \$33 million decrease in incentive stock compensation expense due to a reduced impact from stock plans overlap compared to the prior period.

Other deductions, net were \$101 million for the second quarter of 2011, a \$9 million increase from the prior year primarily due to increased amortization expense on acquired intangible assets and higher foreign currency transaction losses, substantially offset by lower rationalization expense and a \$15 million gain related to the acquisition of full ownership of a joint venture in India. See Notes 5 and 6 for further details regarding other deductions, net and rationalization costs.

Pretax earnings from continuing operations of \$833 million for 2011 increased \$232 million, or 38 percent, compared with \$601 million for 2010, primarily due to higher sales and resulting volume leverage, savings from prior period cost reductions and lower interest expense, slightly offset by increased material and wage costs. Earnings results reflect increases of \$80 million in Industrial Automation, \$55 million in Process Management and \$25 million in Climate Technologies.

Income taxes were \$266 million and \$180 million for 2011 and 2010, respectively, resulting in effective tax rates of 32 percent and 30 percent. The increase in the effective tax rate primarily reflects a change in mix as U.S. operating results improved more than international, lower benefits from tax holidays and the one-time benefits in prior year. 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 \$556 million and \$0.73 for the second quarter of 2011, increases of 36 percent and 35 percent compared with \$408 million and \$0.54 for 2010.

Net earnings common stockholders were \$556 million and net earnings per share were \$0.73 for the second quarter of 2011, both increases of 38 percent, compared with \$405 million and \$0.53 for 2010. Net earnings for 2010 included a loss from discontinued operations of \$3 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 second quarter ended March 31, 2011, compared with the second quarter ended March 31, 2010. The Company defines segment earnings as earnings before interest and taxes.

## Process Management

| Three months ended March 31<br>(dollars in millions) | 2010     | 2011  | Change |   |
|--|----------|-------|--------|---|
| Sales  | \$ 1,428 | 1,653 | 16     | % |
| Earnings   | \$ 241   | 296   | 23     | % |

|        |      |   |      |   |
|--------|------|---|------|---|
| Margin | 16.9 | % | 17.9 | % |
|--------|------|---|------|---|

Process Management second quarter sales increased 16 percent to \$1,653 million as nearly all businesses reported higher sales and earnings due to recovery 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 ongoing recovery in the oil and gas, chemical, power and refining end markets. Underlying sales increased 14 percent from higher volume, aided by slight market penetration gains, and foreign currency translation had a 2 percent (\$25 million) favorable impact. Underlying sales increased in most regions, including the United States (13 percent), Europe (16 percent), Asia (13 percent), Canada (42 percent) and Latin America (20 percent). Middle East/Africa sales were flat. Earnings increased 23 percent for the period to \$296 million and margin increased 1 percentage point, primarily due to higher sales volume and resulting leverage,

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## FORM 10-Q

savings from prior period cost reductions, material cost containment and \$7 million of lower restructuring costs, partially offset by \$20 million of unfavorable foreign currency transactions versus prior year, primarily due to weakening of the U.S. dollar, and increased wage costs.

## Industrial Automation

| Three months ended March 31<br>(dollars in millions) | 2010     | 2011   | Change |   |
|--|----------|--------|--------|---|
| Sales  | \$ 1,010 | 1,308  | 30     | % |
| Earnings   | \$ 130   | 210    | 61     | % |
| Margin   | 12.8 %   | 16.0 % |        |   |

Sales increased 30 percent to \$1,308 million in the second quarter for Industrial Automation due to recovery in capital goods end markets. Sales increased in all businesses led by very strong growth in the power generating alternators, electrical drives, fluid automation and power transmission businesses. Underlying sales growth of 30 percent reflects approximately 27 percent from higher volume and 3 percent from higher selling prices. Underlying sales increased in all major geographic regions, including 30 percent in both the United States and Europe and 22 percent in Asia. Earnings were \$210 million, compared with \$130 million in the prior year, and margin increased over 3 percentage points, primarily reflecting higher sales volume and resulting leverage, savings from prior period cost reductions and lower restructuring costs of \$10 million. Higher material costs were substantially offset by higher selling prices.

## Network Power

| Three months ended March 31<br>(dollars in millions) | 2010     | 2011  | Change |    |
|--|----------|-------|--------|----|
| Sales  | \$ 1,351 | 1,616 | 20     | %  |
| Earnings   | \$ 158   | 150   | (5)    | )% |
| Margin   | 11.7 %   | 9.3 % |        |    |

Sales for Network Power increased 20 percent to \$1,616 million for the second quarter compared with the prior year, led by the Chloride acquisition, which contributed 11 percent (\$161 million), plus underlying sales growth of 8 percent and a 1 percent (\$16 million) favorable impact from foreign currency translation. Underlying sales growth reflects 9 percent from higher volume, including slight market penetration gains, less an estimated 1 percent decline in pricing. Underlying growth was led by strong results in the embedded power and energy systems businesses, slightly offset by a small decline in the North American uninterruptible power supply and precision cooling business. Underlying sales increased 5 percent in the United States, 6 percent in Asia, 4 percent in Europe, 34 percent in Latin America and 55 percent in Middle East/Africa. Earnings of \$150 million decreased 5 percent, or \$8 million compared to the prior year, and margin declined over 2 percentage points primarily due to increased amortization from the Chloride acquisition of \$16 million (1.0 point), other Chloride acquisition-related costs of \$9 million (0.5 points), and operational inefficiencies resulting from initial integration actions. The China telecommunications market has become very challenging due to a slowdown compared to prior year and the negative impact of the increasing pace of inflation in China. Margin was also affected by unfavorable product mix, negative price, higher material and labor-related costs, and investment spending on next-generation data center technologies, partially offset by volume

leverage. Pricing programs are being implemented to address rising costs.



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## FORM 10-Q

## Climate Technologies

| Three months ended March 31<br>(dollars in millions) | 2010   | 2011   | Change |   |
|--|--------|--------|--------|---|
| Sales  | \$ 908 | 1,014  | 12     | % |
| Earnings   | \$ 162 | 187    | 15     | % |
| Margin   | 17.9 % | 18.4 % |        |   |

Climate Technologies sales increased 12 percent in the second quarter to \$1,014 million, reflecting a strong sales increase in the compressor business, partially offset by declines in the temperature controls and temperature sensors businesses. North American air conditioning and refrigeration end markets returned to very strong growth in the second quarter after being down against prior year inventory build in the first quarter. Growth in Asia was modest, and affected by tough comparisons due to prior year stimulus programs in China to support higher efficiency standards. Sales growth reflects an underlying sales increase of 11 percent, including approximately 9 percent from higher volume and 2 percent from higher selling prices, and a 1 percent (\$10 million) favorable impact from acquisitions. Underlying sales increased 14 percent in the United States and 7 percent internationally, including 6 percent in Asia and 5 percent in Europe. Earnings increased 15 percent to \$187 million due to savings from prior period cost reductions, sales volume and favorable product mix. Higher material costs were substantially offset by higher selling prices, but material cost pressures will remain a challenge.

## Tools and Storage

| Three months ended March 31<br>(dollars in millions) | 2010   | 2011   | Change |   |
|--|--------|--------|--------|---|
| Sales  | \$ 422 | 455    | 8      | % |
| Earnings   | \$ 89  | 91     | 3      | % |
| Margin   | 21.0 % | 20.1 % |        |   |

Tools and Storage segment sales increased 8 percent to \$455 million in the second quarter, reflecting a 7 percent increase in underlying sales and a 1 percent (\$3 million) favorable impact from foreign currency translation. Underlying sales growth reflects approximately 6 percent from higher volume and an estimated 1 percent from higher selling prices. The sales increase was led by strong growth in the professional tools business and solid growth in the storage and disposers businesses. Underlying sales increased 6 percent in the United States and 11 percent internationally. Earnings increased 3 percent to \$91 million, reflecting earnings growth in the construction-related businesses. Earnings growth was dampened by higher materials and freight costs in most businesses, and higher manufacturing costs in the disposers business. Margin decreased due to higher material and freight costs, substantially offset by higher selling prices and savings from prior period cost reductions.

EMERSON ELECTRIC CO. AND  
SUBSIDIARIES

## FORM 10-Q

SIX MONTHS ENDED MARCH 31, 2011, COMPARED WITH SIX MONTHS ENDED MARCH 31, 2010

Following is an analysis of the Company's operating results for the six months ended March 31, 2011, compared with the six months ended March 31, 2010.

## RESULTS OF OPERATIONS

| Six months ended March 31<br>(dollars in millions, except per share amounts) | 2010    | 2011   | Change |   |
|--|---------|--------|--------|---|
| Net sales  | \$9,781 | 11,389 | 16     | % |
| Gross profit   | \$3,831 | 4,469  | 17     | % |
| Percent of sales   | 39.2    | 39.2   |        | % |
| SG&A   | \$2,337 | 2,626  |        |   |
| Percent of sales   | 23.9    | 23.0   |        | % |
| Other deductions, net  | \$184   | 179    |        |   |
| Interest expense, net  | \$132   | 118    |        |   |
| Earnings from continuing operations before income taxes                      | \$1,178 | 1,546  | 31     | % |
| Percent of sales   | 12.0    | 13.6   |        | % |
| Earnings from continuing operations common stockholders                      | \$825   | 1,036  | 26     | % |
| Net earnings common stockholders   | \$830   | 1,036  | 25     | % |
| Percent of sales   | 8.5     | 9.1    |        | % |
| Diluted EPS – Earnings from continuing operations                            | \$1.09  | 1.36   | 25     | % |
| Diluted EPS – Net earnings   | \$1.09  | 1.36   | 25     | % |

Net sales for the six months ended March 31, 2011 were \$11,389 million, an increase of \$1,608 million, or 16 percent, compared with net sales of \$9,781 million for the six months ended March 31, 2010. Consolidated results reflect a 12 percent (\$1,184 million) increase in underlying sales, a 4 percent (\$406 million) increase from acquisitions and a small (\$18 million) favorable impact from foreign currency translation. Underlying sales increased 13 percent internationally and 12 percent in the United States, reflecting volume gains. International sales increased in all major geographic regions, including Europe (14 percent), Asia (10 percent), Latin America (20 percent), Canada (23 percent) and Middle East/Africa (12 percent). Sales increased in all segments led by Network Power, Industrial Automation and Process Management, which were up \$553 million, \$522 million and \$385 million, respectively.

Costs of sales for the first half of 2011 and 2010 were \$6,920 million and \$5,950 million, respectively. Gross profit of \$4,469 million and \$3,831 million, respectively, resulted in gross margins of 39.2 percent for both periods. The increase in gross profit primarily reflects higher volume and acquisitions. The flat gross margin reflects volume leverage, savings from cost reduction actions in prior periods and higher selling prices, offset by higher material costs.

Selling, general and administrative expenses for the first half of 2011 were \$2,626 million, or 23.0 percent of net sales, an increase of \$289 million compared with \$2,337 million, or 23.9 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.

Other deductions, net were \$179 million for the first half of 2011, a \$5 million decrease from the same period in the prior year. Lower rationalization expense, lower acquisition costs and a \$15 million gain related to the acquisition of full ownership of a joint venture in India were mostly offset by higher amortization expense on acquired intangible assets. See Notes 5 and 6 for further details regarding other deductions, net and rationalization costs.

Pretax earnings from continuing operations of \$1,546 million for 2011 increased \$368 million, or 31 percent, compared with \$1,178 million for 2010, primarily due to higher sales and resulting volume leverage, cost reduction savings and lower interest expense, slightly offset by higher material and wage costs. Earnings results reflect increases of \$156 million in Industrial Automation and \$129 million in Process Management.

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SUBSIDIARIES

## FORM 10-Q

Income taxes were \$488 million and \$328 million for 2011 and 2010, respectively, resulting in effective tax rates of 32 percent and 28 percent. The increase in the effective tax rate primarily reflects a change in 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 \$1,036 million and \$1.36 for the first half of 2011, increases of 26 percent and 25 percent, respectively, compared with \$825 million and \$1.09 for 2010.

Net earnings common stockholders were \$1,036 million and net earnings per share were \$1.36 for 2011, both increases of 25 percent compared with \$830 million and \$1.09 for 2010. Net earnings for 2010 included earnings from discontinued operations of \$5 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 six months ended March 31, 2011, compared with the six months ended March 31, 2010. The Company defines segment earnings as earnings before interest and taxes.

## Process Management

| Six months ended March 31<br>(dollars in millions) | 2010     | 2011   | Change |
|--|----------|--------|--------|
| Sales  | \$ 2,810 | 3,195  | 14 %   |
| Earnings   | \$ 457   | 586    | 28 %   |
| Margin   | 16.3 %   | 18.3 % |        |

Process Management first half sales increased 14 percent to \$3,195 million as nearly all businesses reported higher sales and earnings due to recovery in the capital intensive end markets served by this segment. Sales growth was particularly strong for the measurement and flow business and valves business as a result of ongoing recovery 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 1 percent (\$15 million) favorable impact. Underlying sales increased in all major geographic regions, including the United States (15 percent), Asia (12 percent), Europe (7 percent), Canada (46 percent), and Latin America (21 percent). Earnings increased 28 percent to \$586 million and margin increased 2 percentage points, primarily due to higher sales volume and resulting leverage, savings from prior period cost reductions, \$12 million lower restructuring expense and material cost containment, partially offset by increased wage costs and \$13 million of unfavorable foreign currency transactions versus prior year primarily due to the weakening of the U.S. dollar.

## Industrial Automation

| Six months ended March 31<br>(dollars in millions) | 2010 | 2011 | Change |
|--|------|------|--------|
|--|------|------|--------|

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|          |    |       |       |    |   |
|----------|----|-------|-------|----|---|
| Sales    | \$ | 1,996 | 2,518 | 26 | % |
| Earnings | \$ | 239   | 395   | 65 | % |
| Margin   |    | 12.0  | 15.7  |    | % |

Sales increased 26 percent to \$2,518 million in Industrial Automation for the first half due to recovery in the capital goods end markets. Sales increased in all businesses led by very strong growth in the power generating alternators, electrical drives, fluid automation and power transmission businesses. Underlying sales increased 26 percent, the SSB acquisition added 1 percent (\$18 million) and foreign currency translation had an unfavorable impact of 1 percent (\$15 million). The underlying sales growth reflects an approximate 23 percent from higher volume and an estimated 3 percent from higher selling prices. Underlying sales increased in all regions, including 27 percent in both the United States and Europe and 23 percent in Asia. Earnings were \$395 million, compared

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SUBSIDIARIES

## FORM 10-Q

with \$239 million in the prior year, and margin increased almost 4 percentage points, reflecting higher sales volume and resulting leverage, lower restructuring costs of \$23 million and savings from prior period cost reductions. Higher material costs were substantially offset by higher selling prices.

## Network Power

| Six months ended March 31<br>(dollars in millions) | 2010     | 2011   | Change |   |
|--|----------|--------|--------|---|
| Sales  | \$ 2,732 | 3,285  | 20     | % |
| Earnings   | \$ 364   | 332    | (9)    | % |
| Margin   | 13.3 %   | 10.1 % |        |   |

Sales for Network Power increased 20 percent to \$3,285 million for 2011 led by the Chloride and Avocent acquisitions which contributed 13 percent (\$378 million), plus underlying sales growth of 6 percent and a favorable impact from foreign currency translation of 1 percent (\$18 million). Led by strong results in the embedded power and North American uninterruptible power supply and precision cooling businesses, underlying sales growth reflects 7 percent from higher volume, including slight market penetration gains, less an estimated 1 percent decline in pricing. Sales in the Network Power business in Asia declined slightly. Underlying sales increased 7 percent in the United States, 4 percent in Asia, 5 percent in Europe, 16 percent in Latin America and 46 percent in Middle East/Africa. Earnings of \$332 million decreased 9 percent along with an over 3 percentage point margin decrease primarily due to increased amortization from the Chloride and Avocent acquisitions of \$41 million and other Chloride acquisition-related costs of \$24 million (total 2.0 points). The other Chloride acquisition-related costs should be essentially eliminated by the second half of fiscal 2011. Margin was also impacted by negative price, unfavorable product mix, higher material and labor-related costs, investment spending on next-generation data center technologies and higher costs to expedite certain inventory shipments in the first quarter. Pricing programs are being implemented to address rising costs. Leverage on higher volume and savings from prior period cost reductions partially offset the margin decline.

## Climate Technologies

| Six months ended March 31<br>(dollars in millions) | 2010     | 2011   | Change |   |
|--|----------|--------|--------|---|
| Sales  | \$ 1,692 | 1,824  | 8      | % |
| Earnings   | \$ 276   | 310    | 12     | % |
| Margin   | 16.3 %   | 17.0 % |        |   |

Climate Technologies sales increased 8 percent in the first half to \$1,824 million, reflecting a strong sales increase in the compressor business, partially offset by declines in the temperature controls and temperature sensors businesses. The North American refrigeration and air conditioning end markets experienced strong growth while moderate growth in Asia reflected the prior year stimulus programs in China. The Company expects the U.S. market to remain solid for the second half of the year, while growth in China is expected to slow due to increasing interest rates and reduced government investment. Sales growth reflects a 7 percent underlying sales increase, including approximately 6 percent from higher volume and 1 percent from higher selling prices, and a 1 percent (\$10 million) favorable impact from acquisitions. Underlying sales increased 6 percent in the United States and 9 percent

internationally, including 9 percent in both Asia and Europe. Earnings increased 12 percent to \$310 million due to savings from prior period cost reductions, higher selling prices and favorable product mix, partially offset by higher material costs.

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SUBSIDIARIES

## FORM 10-Q

## Tools and Storage

| Six months ended March 31<br>(dollars in millions) | 2010   | 2011   | Change |   |
|--|--------|--------|--------|---|
| Sales  | \$ 856 | 901    | 5      | % |
| Earnings   | \$ 170 | 184    | 8      | % |
| Margin   | 19.9 % | 20.4 % |        |   |

Tools and Storage segment sales increased 5 percent to \$901 million for the first half of 2011. Underlying sales growth of 5 percent reflects approximately 5 percent from higher volume and an estimated 1 percent from higher selling prices, partially offset by a 1 percent negative impact from outsourcing freight operations in 2010. The sales increase was led by strong growth in the professional tools business and modest growth in the commercial storage and disposers businesses, partially offset by a modest decline in the residential storage business due to continued very weak U.S. residential construction markets. Underlying sales increased 4 percent in the United States and 11 percent internationally, while earnings increased 8 percent to \$184 million, reflecting earnings growth in the tools business partially offset by lower earnings in the disposers and residential storage 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, partially offset by higher freight costs. Higher material costs were substantially offset by price increases.

## FINANCIAL CONDITION

Key elements of the Company's financial condition for the six months ended March 31, 2011 as compared to the year ended September 30, 2010 and the six months ended March 31, 2010 follow:

|                               | Sept 30,<br>2010 | March 31,<br>2011 |  |  |
|-------------------------------|------------------|-------------------|--|--|
| Working capital (in millions) | \$ 2,514         | 2,864             |  |  |
| 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 %           | 24.9 %            |  |  |
| Interest coverage ratio       | 11.3 X           | 13.0 X            |  |  |

The Company's interest coverage ratio (earnings from continuing operations before income taxes and interest expense, divided by interest expense) was 13.0X for the first six months of 2011, compared with 9.3X for the prior year, primarily due to higher earnings and lower average borrowings in 2011. Despite completing strategic divestitures and spending \$3 billion on acquisitions in fiscal 2010 as it repositioned itself for the future, the Company's financial ratios remain very strong.

Cash and equivalents were flat during the first half of 2011. Cash provided by operating activities of \$1,075 million was down \$244 million compared with \$1,319 million in the prior year period, primarily as a result of increased operating working capital. With resumption of growth in the current year, additional investment in working capital is necessary. The Company improved working capital efficiency in the second quarter and expects this to continue as the year progresses. Operating cash flow and an increase in short-term borrowings of \$107 million funded dividends of \$522 million, capital expenditures of \$208 million, purchases of businesses of \$186 million and treasury stock purchases of \$176 million. For the six months ended March 31, 2011, free cash flow of \$867 million (operating cash



flow of \$1,075 million less capital expenditures of \$208 million) was down 24 percent from free cash flow of \$1,141 million (operating cash flow of \$1,319 million less capital expenditures of \$178 million) in the prior year.

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

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SUBSIDIARIES

## FORM 10-Q

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 current economic conditions and the Company's performance in the first half, fiscal 2011 sales are forecast to be in the range of \$24.3 billion to \$24.8 billion, or 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. Based on this level of sales, the Company forecasts 2011 diluted earnings per share from continuing operations in the range of \$3.20 to \$3.30. Rationalization of operations expense is estimated to be approximately \$80 million to \$100 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. Global economic growth remains solid, but could be negatively impacted by several issues – including Japan natural disasters, China interest rate hikes, Middle East conflicts, the European debt crisis, and the U.S. government budget deficit.

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 March 31, 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 March 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over

financial reporting.

18

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EMERSON ELECTRIC CO. AND  
SUBSIDIARIES

FORM 10-Q

## 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 | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (000s)   |                              |
|---------------|---|------------------------------|---|------------------------------|
|               |   |                              | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (000s) | the Plans or Programs (000s) |
| January 2011  | 300                                     | \$57.71                      | 300   | 48,055                       |
| February 2011 | 775                                     | \$60.74                      | 775   | 47,280                       |
| March 2011    | 1,150                                   | \$58.38                      | 1,150   | 46,130                       |
| Total         | 2,225                                   | \$59.11                      | 2,225   | 46,130                       |

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).

- 10.1 Emerson Electric Co. 2011 Stock Option Plan, incorporated by reference to Emerson Electric Co. 2011 Proxy Statement dated December 10, 2010, File No. 1-278, Appendix B.
- 12 Ratio of Earnings to Fixed Charges.
- 31 Certifications pursuant to Exchange Act Rule 13a-14(a).
- 32 Certifications pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.
- 101 Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Earnings for the three and six months ended March 31, 2010 and 2011, (ii) Consolidated Balance Sheets at September 30, 2010 and March 31, 2011, (iii) Consolidated Statements of Cash Flows for the six months ended March 31, 2010 and 2011, and (iv) Notes to Consolidated Financial Statements for the three and six months ended March 31, 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

FORM 10-Q

SIGNATURE

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

EMERSON ELECTRIC CO.

Date: May 4, 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

10.1 Emerson Electric Co. 2011 Stock Option Plan, incorporated by reference to Emerson Electric Co. 2011 Proxy Statement dated December 10, 2010, File No. 1-278, Appendix B.

12 Ratio of Earnings to Fixed Charges.

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

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