

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

Form 10-K

(Mark One)

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

For the fiscal year ended August 31, 2002.

or

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

For the transition period from to .

Commission file number 001-16583

Acuity Brands, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

58-2632672

(I.R.S. Employer
Identification Number)

1170 Peachtree Street, N.E.,
Suite 2400
Atlanta, Georgia

(Address of principal executive offices)

30309

(Zip Code)

(404) 853-1400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of Each Class

Name of Each Exchange on which Registered

Common Stock (\$0.01 Par Value)
Preferred Stock Purchase Rights

New York Stock Exchange
New York Stock Exchange

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

None

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

Based on the closing price of \$12.65 as quoted on the New York Stock Exchange on October 24, 2002, the aggregate market value of the voting stock held by nonaffiliates of the registrant, was \$521,284,476.

The number of shares outstanding of the registrant's common stock, \$0.01 par value, was 41,436,856 shares as of October 24, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

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Incorporated Document

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PART I

Item 1. Business

Acuity Brands, Inc. (“Acuity Brands” or the “Company”) operates in two business segments — lighting equipment and specialty products. The lighting equipment segment of the Company (“Acuity Lighting Group” or “ALG”) manufactures and distributes a variety of fluorescent and non-fluorescent lighting fixtures for markets throughout North America and other foreign markets, primarily Western Europe. The specialty products segment of Acuity Brands (“Acuity Specialty Products Group” or “ASP”) produces and distributes cleaning, maintenance, sanitation, and water treatment chemicals and other products for customers throughout the United States, Canada, and Western Europe. Of the Company’s fiscal 2002 revenues of approximately \$2.0 billion, the lighting equipment segment generated approximately 75 percent of total revenues while the specialty products segment provided the remaining 25 percent. Information relating to the revenues, operating profits or losses, and total assets of the Company’s two segments for the past three fiscal years is reported in the *Consolidated Financial Statements* included in this report.

On November 7, 2001, the board of directors of National Service Industries, Inc. (“NSI”) approved the spin-off (the “Spin-off” or “Distribution”) of its lighting equipment and specialty products businesses into a separate publicly traded company with its own management and board of directors. The Spin-off was effected on November 30, 2001 through a tax-free distribution of 100 percent of the outstanding shares of common stock of Acuity Brands, which at that time was a wholly-owned subsidiary of NSI owning and operating the lighting equipment and specialty products businesses. Each NSI stockholder of record as of November 16, 2001, the record date for the Spin-off, received one share of Acuity Brands common stock for each share of NSI common stock held on that date.

Business Segments

Lighting Equipment

The lighting equipment business of Acuity Brands is operated under Acuity Lighting Group. Management of Acuity Brands believes that Acuity Lighting Group is the world’s leading manufacturer of lighting fixtures for both new construction and renovation. Products include a full range of indoor and outdoor lighting for commercial and institutional, industrial and residential applications. Lighting products are manufactured in the United States, Canada, Mexico, and Europe and are marketed under numerous brand names, including Lithonia®, Holophane®, Home-View®, Light Concepts®, Gotham®, Hydrel®, Peerless®, Antique Street Lamps™, and Reloc®. ALG manufactures products in 22 plants in North America and in two plants in Europe.

Principal customers include wholesale electrical distributors, retail home improvement centers, and lighting showrooms located in North America and select international markets. In North America, ALG’s products are sold through independent sales agents and factory sales representatives who cover specific geographic areas and market segments. Products are delivered through a network of distribution centers, regional warehouses, and commercial warehouses using both common carriers and a company-owned truck fleet. To serve international customers, ALG employs a sales force that adopts distribution methods to meet individual customer or country requirements. In fiscal 2002, North American sales accounted for approximately 98 percent of ALG’s net sales.

Specialty Products

The specialty products business of Acuity Brands is operated under Acuity Specialty Products Group. ASP is a leading provider of specialty chemical products in the institutional and industrial (“I&I”) and retail markets. Products include cleaners, sanitizers, disinfectants, polishes, floor finishes, degreasers, deodorizers, pesticides, insecticides, and herbicides. ASP manufactures products in four North American plants and two European plants.

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Acuity Specialty Products Group sells products to customers primarily in North America and Western Europe. In fiscal 2002, North American sales accounted for approximately 95 percent of the net sales of ASP. ASP serves a range of institutional and industrial customers, from small sole proprietorships to Fortune 1000 corporations. Individual markets in the I&I channel include food processing and preparation, transportation, education, automotive, and hospitality and are serviced through a direct commissioned sales force. ASP also sells numerous products under such well known brands as Enforcer®, Selig™ and Zep® through retail channels such as large and small home improvement centers and mass merchandisers.

Industry Overview

Lighting Equipment

The size of the North American lighting fixture market in 2002 was estimated at approximately \$8.5 billion. The U.S. market, which represents approximately 95 percent of the North American market, is relatively fragmented. The Company estimates that the top four manufacturers (including Acuity Lighting Group) represent approximately 50 percent of the total lighting market.

The primary demand driver is non-residential construction, both new and renovation. Major industry trends include the on-going development of new and more efficient lamp sources and optical designs, increased adoption of new lighting ordinances, and continued emphasis on energy efficiency.

There has been a significant increase in the size and relative presence of the retail home improvement center segment. In addition, imports of foreign sourced lighting fixtures continue to grow, driven by both the foreign production of U.S. manufacturers and imports of low-cost fixtures from Asian manufacturers. European-based electrical distributors have increased their presence in the U.S. with the acquisition of U.S.-based local and regional distributor chains, and smaller U.S. distributors continue to seek leverage through alignment with buying groups.

Specialty Products

The approximately \$8 billion U.S. I&I janitorial cleaning and sanitation market is highly fragmented. The Company estimates that four major players (including Acuity Specialty Products Group) represent approximately 50 percent of the total market with the remainder divided among hundreds of regional players. In general, the Company estimates that the I&I market grows at a rate approximating Gross Domestic Product (“GDP”). To some extent, consumption of janitorial cleaning and sanitation products is discretionary, but in a health-driven, sophisticated market such as the U.S., the Company believes that health and safety regulations and customer expectations somewhat buffer demand downturns. Increasing legislation in the areas of food and occupational health that require increased ranges of application and frequency of use is fueling demand increases. In addition to the I&I market, there is a U.S. retail chemical market of approximately \$4.3 billion, including a \$2.8 billion market for cleaners and a \$1.5 billion market for pest control.

The Company believes that two major trends are reshaping the industry. First, health and safety regulations are shrinking the pool of available chemicals, while at the same time increasing the total use rates. This has pushed development of improved physical product formulations and application methods. Second, increased centralized corporate buying and consolidation of the supply chain are threatening reselling distributors and requiring increased base manufacturing and logistics skills.

Products

Lighting Equipment

Acuity Lighting Group produces a wide variety of lighting fixtures used in the following applications:

- *Commercial & Institutional* — Applications are represented by stores, hotels, offices, schools, and hospitals, as well as other government and public buildings. Products that serve these applications include recessed, surface and suspended fluorescent lighting products, recessed downlighting and track-lighting, as well as “high-abuse” lighting products. The outdoor areas associated with these

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application segments are addressed by the lighting equipment business' outdoor lighting products, such as area and floodlighting, decorative site lighting, and landscape lighting.

- *Industrial* — Applications primarily include warehouses and manufacturing facilities. The lighting equipment business serves these applications with a variety of glass and acrylic high intensity discharge (HID) and fluorescent lighting products.
- *Infrastructure* — Applications include highways, tunnels, airports, railway yards and ports. Products that serve these applications include high-mast, off-set roadway and sign lighting.
- *Consumer* — Applications are addressed with a combination of decorative fluorescent and downlighting products, as well as utilitarian fluorescent products.
- *Other Applications & Products* — Other applications and products include emergency lighting products, which are used in non-residential buildings, and lighting control and flexible wiring systems.

General fluorescent lighting products accounted for approximately 24 percent of total consolidated revenue during fiscal years 2002, 2001 and 2000. No other product category accounted for more than 10 percent of total consolidated revenue for these periods.

Specialty Products

ASP produces and supplies a wide variety of specialty chemical products that are used in numerous applications in a broad range of markets. These include:

- *Food Process and Food Preparation* — ASP provides a total solution approach to serving customers' sanitation needs. New products, increased technical training for the sales reps, integrated dispensing systems and innovative approaches to antimicrobial control have been implemented to complement the existing cleaners and sanitizers.
- *Transportation* — Applications include cleaning and maintenance products for numerous transportation equipment including individual or fleets of aircraft, public transport, trucks and cars. New products have delivered increased efficiency, regulatory compliance and integrated application equipment. Major products are used to provide exterior cleaning or enhanced appearance.
- *Education* — Applications include schools and universities. The product range is broad and covers all cleaning and maintenance areas with specific emphasis on floor care and general cleaning and deodorizing.
- *Automotive* — Applications include original equipment manufacturers, dealerships and repair/ service facilities. A comprehensive range of products includes aerosols, powders, solvents, absorbents, emulsions, acids and aqueous alkaline cleaners and degreasers to provide necessary cleaning requirements.
- *Hospitality* — Customers include hotels and motels. Products and dispensing systems are designed to supply maintenance, housekeeping and laundry applications with a complete cleaning solution.
- *Contractors and Homeowners* — Applications include contract cleaners, small business owners, and homeowners and are supplied through retail channels. Products provide a comprehensive range of floor care, general purpose cleaners and sanitizers, drain maintenance, and pest control in convenient ready-to-use packaging.

Sales and Marketing

Lighting Equipment

Sales. ALG provides North American market coverage with approximately 15 separate sales forces targeted at delivering appropriate products and services to specific customer or channel segments. In total, these sales forces are comprised of approximately 1,700 salespeople (200 factory-employed and 1,500

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independent sales representatives in over 200 separate sales agencies). ALG also operates two separate European sales forces and an international sales group coordinating sales to the balance of the globe.

Marketing. ALG markets its products through a broad spectrum of marketing and promotional vehicles, including direct customer contact, on-site training at training facilities, print advertising in industry publications, product brochures and other literature, as well as electronic media. Direct customer contact is performed by market development managers, whose primary role is the promotion of select products to the many buying influences involved in the specification/ bid process common in the industry. Most on-site training is conducted at a dedicated product training facility at ALG's headquarters in Conyers, Georgia.

Specialty Products

Sales. ASP is a selling organization of 1,900 sales representatives and over 180 support personnel worldwide. The compensation model is primarily 100 percent commission with exceptions in certain channels. Net sales are dependent on the hiring, training, and retention of the commissioned sales representatives. Accordingly, the future operating results of ASP may be affected by significant changes in the sales force.

The ASP sales organization covers a wide geographic territory. The I&I market is serviced through the recently reorganized Zep business with four U.S. divisions, as well as Canadian and European divisions. Each of the four U.S. divisions includes from 230 to 370 sales representatives supplemented by a highly productive complement of customer and technical service personnel. The Canadian and European divisions have approximately 150 and 240 sales representatives, respectively. ASP's I&I business in North America uses sales automation software that allows interactive support and communication throughout North America. The retail sales division utilizes approximately 170 salaried sales and management personnel to focus on revenue in the do-it-yourself home improvement channel.

Marketing. ASP's marketing efforts are focused on supporting a sell-through program from ASP to the sales organization and then to the customer. ASP's primary focus is in four distinct areas. Market planning includes comprehensive strategic and tactical plan development and support emphasizing financial objectives and accountability. Product management includes new product development and asset management. Market-based pricing takes into account competitive analysis and leverages the flexibility of the ASP operating platform. Marketing services provides sales support tools and collateral sales information to ASP's worldwide sales force and customer base.

ASP has expanded the size and scope of marketing since 1998 and now employs over 40 marketing professionals. The expertise of these professionals includes technical support, product management, retail marketing and market planning.

Customers

No single customer accounted for 10 percent or more of consolidated net sales of Acuity Brands in fiscal year 2002. However, a single customer of Acuity Brands accounted for 14 percent and 13 percent of ASP's fiscal year net sales in 2002 and 2001, respectively. The loss of that customer would adversely affect the results of that segment and the Company as a whole.

Lighting Equipment

Customers of the Acuity Lighting Group include electrical distributors, retail home improvement centers, national accounts, lighting showrooms, and electric utilities. In addition, there are a variety of other buying influences, which for any given project could represent a significant influence in the product specification process. These generally include engineers, architects and lighting designers. For the year ended August 31, 2002, sales to electrical distributors represented approximately 78 percent of ALG's revenue. For the same period, retail home improvement centers and national accounts together represented approximately 14 percent of the revenue of ALG.

Specialty Products

Customers of ASP consist of I&I customers (82 percent of segment revenues) and retail customers (18 percent of segment revenues). I&I customers range from sole proprietorships to Fortune 1000 corporations and are in the food processing and preparation, transportation, education, automotive, and hospitality markets. Retail customers primarily include large and small home improvement centers and mass merchandisers.

Manufacturing

Acuity Brands operates 30 manufacturing facilities in seven countries, including 18 facilities in the United States, four facilities in Canada, four facilities in Mexico, and four facilities in Europe.

Lighting Equipment

ALG utilizes a blend of internal and outsourced manufacturing processes and capabilities to fulfill a variety of customer needs in the most cost effective manner. Critical processes, such as reflector forming and anodizing and high-end glass production are primarily performed at company-owned facilities, offering the ability to differentiate end products through superior capabilities. Investment is focused on improving product quality and manufacturing efficiency. The integration of local suppliers' factories and warehouses also provides an opportunity to lower ALG-owned component inventory while maintaining high service levels via frequent just-in-time deliveries. ALG also utilizes contract manufacturing for certain products and purchases certain finished goods, primarily poles to complement its area lighting fixtures, but also a variety of residential and commercial lighting equipment, from Asian and European sources.

U.S. operations represent approximately 56 percent of production; Mexico accounts for approximately 31 percent of production; Canada accounts for approximately four percent of production; and Europe accounts for approximately three percent of production. The remaining six percent of production is outsourced using contract manufacturing and finished good suppliers.

Specialty Products

ASP manufactures products at six facilities located in the United States, Canada, Holland and Italy. The three U.S. facilities produce approximately 94 percent of total manufactured product; Canada accounts for approximately three percent of manufactured product, and Europe accounts for approximately three percent of manufactured product. Certain finished goods purchased from contract manufacturers and finished goods suppliers supplement the manufactured product line.

At ASP, core manufacturing and distribution processes are being further integrated across brands in order to reduce costs and enhance efficiency. ASP is focused on efforts to maximize return on employed capital through productivity improvement programs. In addition, efforts are underway to optimize inventories through product line rationalization and product reformulation programs.

Distribution

Lighting Equipment

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

Specialty Products

Products sold to institutional and industrial markets are shipped from strategically located distribution centers throughout North America, while the retail products are distributed nationwide from the Cartersville, Georgia plant and warehouse.

Research and Development

Lighting Equipment

Research and development efforts at ALG are targeted toward the development of products with an ever-increasing performance-to-cost ratio, and close relationships with lamp and ballast manufacturers are maintained to understand and incorporate technology enhancements in ALG's fixture designs. ALG operates six separate product development model shops and seven photometers for testing and optimizing fixture photometric performance. The Conyers, Georgia lab is approved by the National Voluntary Laboratory Accreditation Program for both fluorescent and high intensity discharge fixtures. For the years ended August 31, 2002, 2001, and 2000, research and development expense at ALG was \$20.3 million, \$14.5 million, and \$16.2 million, respectively.

Specialty Products

At ASP, the research and development focus is directed towards product systems aimed at comprehensive solutions for a broad customer base. Efforts to enhance existing formulations by utilizing new raw materials or combinations of raw materials have resulted in both new and improved products. Technical expertise was employed to move proven technologies into new applications. Enhanced information systems were developed to increase the speed and quality of training and customer assistance. Research and development expense at ASP for the years ended August 31, 2002, 2001, and 2000, excluding technical services, was \$1.7 million, \$1.1 million, and \$1.0 million, respectively.

Competition

Lighting Equipment

The lighting equipment industry in which ALG operates is highly competitive, with the largest suppliers serving many of the same markets and competing for the same customers. Competition is based on numerous factors, including brand name recognition, price, product quality and design, customer relationships, and service capabilities. Main competitors in the lighting industry include Cooper Industries, Genlyte Thomas Group, and Hubbell. The management of Acuity Brands believes that, together with ALG, the four largest lighting manufacturers possess approximately a 50 percent share of the total North American lighting market.

Specialty Products

The specialty products industry in which ASP operates is highly competitive. Overall, competition is fragmented, with numerous local and regional operators and a few national competitors. Many of these competitors offer products in some, but not all, of the markets served by ASP. Competition is based primarily on brand name recognition, price, product quality, and customer service. Competitors in the specialty products industry include Ecolab, NCH and SC Johnson. Management estimates that the four major players (including ASP) have approximately 50 percent of the total U.S. market and the remainder is divided among hundreds of regional players.

Environmental Regulation

The operations of the Company are subject to comprehensive laws and regulations relating to the generation, storage, handling, transportation, and disposal of hazardous substances and solid and hazardous wastes and to the remediation of contaminated sites. Permits and environmental controls are required for certain of the Company's operations to limit air and water pollution, and these permits are subject to modification, renewal, and revocation by issuing authorities. Acuity Brands believes that it is in substantial compliance with all material environmental laws, regulations, and permits. On an ongoing basis, Acuity Brands incurs capital and operating costs relating to environmental compliance. Environmental laws and regulations have generally become stricter in recent years, and the cost of responding to future changes may be substantial. See *Item 3 Legal Proceedings* below for a discussion of certain environmental matters.

Raw Materials

The businesses of Acuity Brands require certain raw materials to produce and distribute their products, including aluminum, plastics, electrical components, solvents, surfactants, and certain grades of steel and glass. Acuity Brands purchases most of these raw materials on the open market and relies on third parties for the sourcing of some finished goods. As such, the cost of products sold may be affected by changes in the market price of the above-mentioned raw materials or the sourcing of finished goods. Acuity Brands does not expect to engage in significant commodity hedging transactions for raw materials. Significant increases in the prices of Acuity Brands' products due to increases in the cost of raw materials or sourcing could have a negative effect on demand for products and on profitability as well as a material adverse effect on the results of operations of Acuity Brands.

ASP has a sole supplier of a critical packaging raw material. While this material only accounts for approximately three percent of the total raw material costs, it is used in products that account for approximately 10 percent of sales.

Each business constantly monitors and investigates alternative suppliers and materials. Additionally, each business has conducted internet auctions as a new method of competitive bidding.

Backlog Orders

The Company produces and stocks large quantities of inventory at key distribution centers and warehouses throughout North America. As a consequence, it satisfies a significant portion of customer demand within 24 to 48 hours from the time a customer order is placed. This is especially true at ASP. Sales order backlogs of the lighting equipment business believed to be firm as of August 31, 2002 and 2001 were \$144.7 million and \$141.5 million, respectively. Sales order backlogs for the specialty products business were not material.

Patents, Licenses and Trademarks

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

Seasonality and Cyclicalities

The businesses of Acuity Brands are somewhat seasonal in nature, with revenues being affected by the impact of weather and seasonal demand on construction and installation programs, as well as the annual budget cycles of major customers. Because of these seasonal factors, Acuity Brands has experienced, and generally expects to experience, its highest sales in the last two quarters of its fiscal year ended August 31.

A significant portion of the revenues of ALG relates to customers in the new construction and renovation industries primarily for commercial and industrial applications. These industries are cyclical in nature and subject to changes in general economic conditions. Volume has a major impact on the profitability of ALG and Acuity Brands as a whole. In addition, sales at ASP are dependent on the retail, wholesale and industrial markets, demand for which is generally associated with GDP in the United States. Economic downturns and the potential decline in key construction markets and demand for specialty chemicals may have a material adverse effect on the net sales and operating income of Acuity Brands.

International Operations

Acuity Brands manufactures and assembles products at numerous facilities, some of which are located outside the United States. Approximately 38 percent and six percent of the lighting equipment and specialty products segments' products, respectively, are manufactured outside the United States, primarily in Mexico and Canada. Acuity Brands also obtains components and certain finished goods from suppliers located outside the United States. Approximately 31 percent of Acuity Brands' lighting equipment products are produced in Mexico. Mexico has enacted legislation to promote the use of such manufacturing operations, known as "Maquiladoras," by foreign companies. These operations are authorized to operate as Maquiladoras by the Ministry of Economy of Mexico. Maquiladora status allows Acuity Brands to import certain items from the United States into Mexico duty-free, provided that such items, after processing, are re-exported from Mexico within 18 months. Maquiladora status, which is renewed every year, is subject to various restrictions and requirements, including compliance with the terms of the Maquiladora program and other local regulations. In recent years many companies have established Maquiladora operations. Although the Company's manufacturing operations in Mexico continue to be less expensive than comparable operations in the United States, increasing demand for labor, particularly skilled labor and professionals, from new and existing Maquiladora operations has in the past and could in the future result in increased labor costs. Acuity Brands may be required to make additional investments in automating equipment to partially offset potential increased labor costs.

For the fiscal year ended August 31, 2002, international sales represented approximately 11 percent and 13 percent of the total sales of the lighting equipment and specialty products businesses, respectively.

Employees

Acuity Brands employs approximately 11,800 employees, of whom approximately 8,010 are employed in the United States, 2,530 in Mexico, 680 in Canada, and 580 in other international locations, including Europe and Asia/ Pacific. Union recognition and collective bargaining arrangements are in place, covering approximately 4,680 persons (including approximately 2,500 in the United States). Management believes that it generally has a good relationship with both its unionized and non-unionized employees.

Item 2. Properties

The general corporate offices of Acuity Brands are located in Atlanta, Georgia. Because of the diverse nature of operations and the large number of individual locations, it is neither practical nor meaningful to describe each of the operating facilities owned or leased by the Company. The following listing summarizes the significant facility categories by business:

Division	Owned	Leased	Nature of Facilities
Lighting Equipment	17	7	Manufacturing Facilities
	1	9	Warehouses
	3	4	Distribution Centers
	9	11	Offices
Specialty Products	4	2	Manufacturing Facilities
	12	38	Warehouses
	—	4	Distribution Centers
	—	11	Offices

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The following table provides additional geographic information related to Acuity Brands' manufacturing facilities:

	United States	Canada	Mexico	Europe	Total
Lighting Equipment					
Owned	13	1	3	—	17
Leased	2	2	1	2	7
Specialty Products					
Owned	3	—	—	1	4
Leased	—	1	—	1	2
Total	18	4	4	4	30

None of the individual properties of Acuity Brands is considered to have a value that is significant in relation to the assets of Acuity Brands as a whole. Though a loss at certain facilities could have an impact on the Company's ability to serve the needs of its customers, the Company believes that the financial impact would be partially mitigated by various insurance programs in place. Acuity Brands believes that its properties are well maintained and are in good operating condition. Acuity Brands' properties are suitable and adequate for its present needs. The Company believes that it has additional capacity available at most of its production facilities and that it could significantly increase production without substantial capital expenditures.

Item 3. *Legal Proceedings*

Acuity Brands is subject to various legal claims arising in the normal course of business, including patent infringement and product liability claims. Based on information currently available, it is the opinion of management that the ultimate resolution of pending and threatened legal proceedings will not have a material adverse effect on the financial condition or results of operations of Acuity Brands. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such matters, if unfavorable, could have a material adverse effect on the future financial results of Acuity Brands. Acuity Brands establishes reserves for legal claims when payments associated with the claims become probable and can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher than the amounts reserved for such claims.

Genlyte Thomas Group LLC ("Genlyte Thomas") filed suit on March 29, 2000, in the United States District Court, Western District of Kentucky, alleging that certain Lithonia Lighting products infringe a patent related to a frame for recessed lighting fixtures and that the infringement is willful. The Company believes that it has valid defenses to the lawsuit and is vigorously defending the asserted allegations. Specifically, the Company has received a formal opinion from independent patent counsel that the patent is invalid and unenforceable. In discovery, which recently has been substantially completed, Genlyte Thomas submitted an expert report on its damages claim asserting that Genlyte Thomas has sustained approximately \$20 million in damages. Any damages awarded at trial may be increased by the court by up to three times if willful infringement is found. The Company has reserved the expected defense costs for this litigation. Extensive pre-trial motions have been filed and it is expected that the case, if it proceeds to trial, will not be heard until late 2003.

Acuity Brands also establishes reserves for known environmental claims when payments associated with the claims become probable and the costs can be reasonably estimated. The environmental reserves of Acuity Brands, for all periods presented in the *Consolidated Financial Statements* included in this report, are immaterial. The actual costs of environmental issues may be higher than that reserved due to difficulty in estimating such costs and potential changes in the status of government regulations.

Certain environmental laws can impose liability regardless of fault. The federal Superfund law is an example of such an environmental law. However, management believes that the liability under Superfund is mitigated by the presence of other parties who will share in the costs associated with the clean up of

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sites. The extent of liability is determined on a case-by-case basis taking into account many factors, including the number of other parties whose status or activities also subjects them to liability regardless of fault.

Acuity Brands is currently a party to, or otherwise involved in, legal proceedings in connection with state and federal Superfund sites. Based on information currently available, the Company believes its liability is immaterial at each of the currently active sites which it does not own where it has been named as a responsible party or a potentially responsible party ("PRP") due to its limited involvement at the site and/or the number of viable PRPs. For example, the preliminary allocation among 48 PRPs at the Crymes Landfill site in Georgia indicates that Acuity Brands' liability is not significant, and there are more than 1,000 PRPs at the M&J Solvents site in Georgia. For property that Acuity Brands owns on Seaboard Industrial Boulevard in Atlanta, Georgia, the Company has conducted an investigation on its properties and adjoining properties and submitted a Compliance Status Report ("CSR") to the State of Georgia Environmental Protection Division ("EPD") pursuant to the Georgia Hazardous Site Response Act. Until the EPD approves the CSR and Acuity Brands evaluates the necessity for and scope of any appropriate corrective action, Acuity Brands will not be able to determine whether corrective action will be required and what the costs of such action will be.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted for a vote of the security holders during the three months ended August 31, 2002.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Acuity Brands' common stock is listed on the New York Stock Exchange under the symbol "AYI". At October 24, 2002, there were 5,346 stockholders of record. The following table sets forth the New York Stock Exchange high and low stock prices and the dividend payments for Acuity Brands' common stock for the periods indicated.

	Price Per Share		Dividends Per Share
	High	Low	
2002			
First Quarter	*	*	*
Second Quarter	\$14.89	\$10.70	\$0.15
Third Quarter	\$19.40	\$14.00	\$0.15
Fourth Quarter	\$18.60	\$11.35	\$0.15

* Public trading of the Acuity Brands shares (other than on a when-issued basis) did not commence until December 3, 2001.

The information required by this item, with respect to equity compensation plans, is included under the caption *Disclosure with Respect to Equity Compensation Plans* of the Company's proxy statement for the annual meeting of stockholders to be held December 19, 2002, filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 6. Selected Financial Data

The following table sets forth certain selected consolidated financial data of Acuity Brands, which have been derived from the *Consolidated Financial Statements* of Acuity Brands for each of the five years in the period ended August 31, 2002. The historical information may not be indicative of the Company's future performance as an independent company. The information set forth below should be read in conjunction with *Management's Discussion and Analysis of Financial Condition and Results of Operations*

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and the *Consolidated Financial Statements* and the notes thereto. Operating expenses in the historical income statements prior to December 1, 2001 reflect direct expenses of the Acuity Brands' businesses together with allocations of certain NSI corporate expenses that were charged to Acuity Brands based on usage or other methodologies appropriate for such expenses. In the opinion of Acuity Brands management, these allocations have been made on a reasonable basis. Actual per share data has not been presented since the businesses that comprise Acuity Brands were wholly-owned subsidiaries of NSI during all or a portion of such periods.

	Year Ended August 31,				
	2002	2001	2000	1999	1998
	(In thousands, except per-share data)				
Net sales	\$1,972,796	\$1,982,700	\$2,023,644	\$1,701,568	\$1,555,559
Net income	52,024	40,503	83,691	89,116	81,811
Pro forma basic earnings per share	1.26	0.99	n/a	n/a	n/a
Total assets	1,357,954	1,330,575	1,422,880	1,337,038	700,112
Long-term debt (excluding current portion)	410,630	373,707	380,518	435,199	78,092
Total debt	543,121	608,830	636,434	544,577	81,073
Cash dividends declared per common share	0.45	n/a	n/a	n/a	n/a

In September 2001, the Company adopted Statement of Financial Accounting Standards No. 142 *Goodwill and Other Intangible Assets*. Refer to Note 2 of the *Notes to Consolidated Financial Statements* for information related to the impact of the adoption of this standard on the Company's net income and pro forma earnings per share.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the *Consolidated Financial Statements* and related notes. References made to years are for fiscal year periods. Dollar amounts are in thousands, except share and per-share data and as indicated.

Overview

History and Purpose

On November 7, 2001, the board of directors of National Service Industries, Inc. approved the spin-off (the "Spin-off") of its lighting equipment and specialty products businesses into a separate publicly traded company with its own management and board of directors. The Spin-off was effected on November 30, 2001 through a tax-free distribution to NSI stockholders ("Distribution") of 100 percent of the outstanding shares of common stock of Acuity Brands, Inc. ("Acuity Brands" or "the Company"), at that time a wholly-owned subsidiary of NSI owning and operating the lighting equipment and specialty products businesses. Each NSI stockholder of record as of November 16, 2001, the record date for the Distribution, received one share of Acuity Brands common stock for each share of NSI common stock held at that date. The Company operates on a fiscal year end of August 31. Therefore, the results of operations prior to November 30, 2001 are based on certain assumptions more fully described in Note 1 of the *Notes to Consolidated Financial Statements*.

The purpose of this discussion and analysis is to enhance the understanding and evaluation of the results of operations, financial position, cash flows, indebtedness and other key financial information of Acuity Brands and its subsidiaries for the years ended August 31, 2002, 2001, and 2000 and to describe certain potential risk factors associated with the Company. For a more complete understanding of this discussion, please read the *Notes to Consolidated Financial Statements* included in this report. Also, please refer to the Company's Registration Statement on Form 10/A filed with the Securities and Exchange

Commission on November 9, 2001 for additional information regarding the Company, its formation and potential risk factors associated with the Spin-off.

Company

Acuity Brands is a holding company that owns and manages two business units, each operating a collection of businesses, which sell products and provide services to customers in numerous channels, primarily for consumer, commercial and industrial applications. The business units of Acuity Brands operate in two distinct segments based on the different products manufactured and the customers served: Acuity Lighting Group (“ALG”) and Acuity Specialty Products Group (“ASP”). The Company believes ALG is the world’s leading manufacturer and distributor of lighting fixtures, with a broad, highly configurable product offering consisting of roughly 500,000 active products as part of over 2,000 product groups that are sold to approximately 5,000 customers. ALG operates 31 factories and distribution facilities to serve its extensive customer base. ASP is a leading producer and distributor of cleaning and maintenance products in North America and portions of Western Europe. ASP manufactures over 9,000 different products from six plants and serves over 300,000 customers through a network of distribution centers and warehouses. Acuity Brands, with its principal office in Atlanta, Georgia, has almost 12,000 employees worldwide. While Acuity Brands is less than one year old, the two segments that make up the Company are comprised of organizations with long histories and well-known brands.

Strategy

A long-term objective of Acuity Brands is to be a broader, more diversified manufacturing and distribution organization capable of delivering consistent growth in earnings and cash flow. A broader and more diversified organization is one that creates less dependency on a single market or customer and generally reduces volatility in earnings and cash flow caused by the cyclical nature of a dominant industry. The Company’s longer-term financial goals, focused on enhancing shareholder value, are to grow earnings per share in excess of 15 percent per annum, to generate consolidated operating margins in excess of 10 percent, to provide a return on stockholders’ equity of 15 percent or better and to reduce the Company’s leverage to below 40 percent of total capital.

In 2002, Acuity Brands focused on the following four initiatives directed at the achievement of these goals:

1. Provide customers with superior, value-added products and services
2. Reduce debt
3. Implement profit improvement and cost containment programs
4. Diversify the customer base and channels of distribution

In fiscal 2002, the Company made significant progress in each of these key areas. Each segment continued to develop new products and provide high levels of service, which helped mitigate the impact of weak demand caused by a soft economic environment in other more mature product lines, described more fully below. As significantly, the Company was able to reduce debt by approximately \$100 million from the date of Spin-off to \$543 million at August 31, 2002 through a combination of operating income and improved working capital management. Also, benefiting the results of the Company in 2002 was the impact of profit improvement and cost containment programs implemented throughout the Company. The impact of these programs helped to partially offset the significant price degradation due to severe competition in key markets, particularly non-residential construction in North America. Lastly, the Company was able to continue with its effort to diversify its customer base and end markets through the acquisition of American Electric Lighting in October 2001 and the addition of certain key accounts in both segments.

During fiscal 2003, management expects to build on the momentum and the accomplishments of these and other initiatives implemented in prior years. The expected outcome of these activities will be to

better position the Company to deliver on its full potential and provide a platform for future growth opportunities.

Market Conditions — Fiscal 2002

Fiscal 2002 was a very challenging inaugural year for Acuity Brands. Events that impacted business generally in 2002 were well-publicized lapses in proper corporate governance by certain companies, sensational business bankruptcies, large layoffs and the tragedy on September 11, 2001, all of which took their toll on an economy that had not experienced recession in a decade. Gross Domestic Product in the United States, the Company's primary area of operation, for the fiscal year ended August 31, 2002 increased approximately 2.2 percent, with most of the gain occurring late in the year. During that same period, activity in the Company's primary market, non-residential commercial construction, declined approximately 11 percent year over year (based on square footage put in place). Management believes that was the largest annual decline in 10 years. For Acuity Brands, these conditions created an economic environment characterized by weak demand in key markets, rising costs for raw materials and insurance, and intense price competition.

Highlight — Fiscal 2002

The Company responded and adapted to these challenging and volatile market conditions by implementing strategies and programs to reduce costs, enhance productivity and, by better managing its capital expenditures and working capital, improve cash flow from operations. Acuity Brands generated almost \$2 billion in revenues and produced net income of \$52 million, or \$1.26 per share for the year ended August 31, 2002. More importantly, the Company strengthened its balance sheet by reducing debt to \$543 million at August 31, 2002 from \$644 million on November 30, 2001. While the Company aspired to better results, Acuity Brands is proud of these financial achievements given the economic conditions that existed in 2002.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses the financial condition and results of operations as reflected in the Company's *Consolidated Financial Statements*, which have been prepared in accordance with accounting principles generally accepted in the United States. As discussed in Note 2 of the *Notes to Consolidated Financial Statements*, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to inventory valuation; depreciation, amortization and the recoverability of long-lived assets, including intangible assets; medical, product warranty and other reserves; litigation; and environmental matters. Management bases its estimates and judgments on its substantial historical experience and other relevant factors, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. See Note 2 of the *Notes to Consolidated Financial Statements* for a summary of the accounting policies of Acuity Brands.

The management of Acuity Brands believes the following represent the Company's critical accounting policies:

Inventories

Acuity Brands records inventory at the lower of cost (on a first-in, first-out basis) or market. Management reviews inventory quantities on hand and records a provision for excess or obsolete inventory primarily based on estimated future demand and current market conditions. A significant change in

customer demand or market conditions could render certain inventory obsolete and thus could have a material adverse impact on the Company's operating results in the period the change occurs.

Long-Lived and Intangible Assets and Goodwill

Acuity Brands reviews goodwill and intangible assets with indefinite useful lives for impairment on an annual basis or on an interim basis if an event occurs that might reduce the fair value of the long-lived asset below its carrying value. All other long-lived and intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized based on the difference between the carrying value of the asset and its estimated fair value, which would be determined based on either discounted future cash flows or other appropriate fair value methods.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), *Goodwill and Other Intangible Assets*. Acuity Brands adopted SFAS No. 142 as of September 1, 2001. SFAS No. 142 requires companies to cease amortizing goodwill that existed at June 30, 2001 and establishes a new method for testing goodwill for impairment. SFAS No. 142 also requires that an identifiable intangible asset that is determined to have an indefinite useful economic life not be amortized, but separately tested for impairment using a fair value based approach. The evaluation of goodwill and intangibles with indefinite useful lives for impairment requires management to use significant judgments and estimates including, but not limited to, projected future revenue, operating results, and cash flow of each of the Company's businesses.

Although management currently believes that the estimates used in the evaluation of goodwill and intangibles with indefinite lives are reasonable, differences between actual and expected revenue, operating results, and cash flow could cause these assets to be deemed impaired. If this were to occur, the Company would be required to charge to earnings the write-down in value of such assets, which could have a material adverse effect on the Company's results of operations and financial position.

Specifically, Acuity Brands has two unamortized intangible assets with an aggregate carrying value of \$65.0 million. The carrying value is comprised of \$62.6 million and \$2.4 million associated with the Company's Holophane and American Electric Lighting trade names, respectively. Management estimates the fair value of these unamortized trade names using a fair value model based on discounted future cash flows. Future cash flows associated with each of the Company's unamortized trade names are calculated by applying a theoretical royalty rate a willing third party would pay for use of the particular trade name to estimated future revenue. The present value of the resulting after-tax cash flow is management's current estimate of the fair value of the trade names. This fair value model requires management to make several significant assumptions, including estimated future revenue, the royalty rate, and the discount rate.

Differences between expected and actual results can result in significantly different valuations. If future operating results of Holophane are unfavorable compared to forecasted amounts, the Company may be required to reduce the theoretical royalty rate used in the fair value model. A reduction in the theoretical royalty rate would result in lower expected, future after-tax cash flow. Accordingly, an impairment charge would be recorded at that time. To illustrate the potential impact of unfavorable changes in the assumptions underlying the fair value model, a one percent reduction in the theoretical royalty rate related to the Holophane trade name would result in a pre-tax impairment charge of approximately 27 percent, or \$17.0 million, of the carrying value of the trade name.

Self-Insurance

It is the policy of the Company to self insure for certain insurable property and casualty risks consisting primarily of physical loss to property, business interruptions resulting from property losses, workers' compensation, comprehensive general liability, and auto liability. Insurance coverage is obtained for catastrophic property and casualty exposures as well as those risks required to be insured by law or contract. Based on an independent actuary's estimate of the aggregate liability for claims incurred, a provision for claims under the self-insured program is recorded and revised annually. The actuarial

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estimates are subject to uncertainty from various sources, including, among others, changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. Although Acuity Brands believes that the actuarial estimates are reasonable, significant differences related to the items noted above could materially affect the Company's self-insurance obligations and future expense.

The Company is also self-insured for the majority of its medical benefit plans. The Company estimates its aggregate liability for claims incurred by applying a lag factor to the Company's historical claims and administrative cost experience. The appropriateness of the Company's lag factor is evaluated and revised, if necessary, annually. Although management believes that the current estimates are reasonable, significant differences related to claim reporting patterns, legislation, and general economic conditions could materially affect the Company's medical benefit plan liabilities and future expense.

Product Warranty

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

Litigation

Acuity Brands reserves for legal claims when payments associated with the claims become probable and can be reasonably estimated. Due to the difficulty in estimating costs of resolving legal claims, actual costs may be substantially higher than the amounts reserved.

Environmental Matters

The Company reserves for known environmental claims when payments associated with the claims become probable and the costs can be reasonably estimated. Acuity Brands' environmental reserves, for all periods presented, are immaterial. The actual cost of resolving environmental issues may be higher than that reserved primarily due to difficulty in estimating such costs and potential changes in the status of government regulations.

Liquidity and Capital Resources

Principal sources of liquidity for the Company are operating cash flows generated primarily from its segments and various sources of borrowings, primarily from banks. The capital structure of the Company is comprised principally of an asset-backed securitization program, borrowings from banks, senior notes, and the equity of its stockholders. The ability of the Company to generate sufficient cash flow from operations and to be able to access certain capital markets, including banks, is critical for the Company to meet its obligations as they become due.

Based on current earnings projections and prevailing market conditions, both for customer demand and various capital markets, the Company believes that over the next twelve months it will have sufficient liquidity and availability under its financing arrangements to fund its operations as currently planned and its anticipated capital investment and profit improvement initiatives, to repay borrowings as currently scheduled, and to pay the same quarterly stockholder dividends in such amounts in 2003 as were paid in 2002. The Company expects to reduce outstanding borrowings by at least \$30.0 million and to invest between \$38.0 and \$42.0 million in new tooling, machinery and equipment during fiscal 2003. If management's expectations regarding current earnings projections and cash flow or the forecasted reduction in outstanding borrowings are not realized, the Company may be required to modify its planned business activities or restructure a portion of its existing debt on potentially less favorable terms.

Cash Flow

The Company continues to generate substantial cash flow from operations. In 2002, the Company generated \$146.8 million in cash flow from operations compared to \$183.7 million and \$53.9 million reported in 2001 and 2000, respectively. Operating earnings in each segment and improved working capital management were the primary contributors to the Company's cash flow from operations in 2002, partially offset by the payment of approximately \$7.0 million for spin-off related expenses. In addition, the Company generated \$8.4 million in cash in 2002 from the sale of certain non-core assets. Total cash flow generated from operations plus these additional proceeds totaled \$155.2 million in 2002. The Company used its cash flow in 2002 primarily to fund capital expenditures, quarterly dividend payments, and activity with NSI prior to the Distribution, to acquire American Electric Lighting and to reduce debt.

The Company believes that achieving the proper returns on its invested capital is a key factor in driving stockholder value. Toward that objective, management continued to focus its efforts in 2002 on improving the returns earned on its invested capital by redeploying under-performing, non-core assets and making additional investments in areas where the Company can maximize its earnings potential. This included expenditures on tooling, machinery, and equipment for internal expansion as well as an acquisition of a business in a strategic market. As part of this effort, the Company spent \$33.5 million in 2002 for new tooling, machinery and equipment. Over the last three years, the Company has invested a total of \$144.0 million for new plant, equipment and tooling primarily to improve productivity and product quality, increase manufacturing efficiencies and enhance its customer service capabilities in each segment. The Company believes that these investments, which have exceeded depreciation expense by an average of 9.6 percent annually in the three-year period ended August 31, 2002, will enhance its operations and financial performance in 2003 and beyond.

As part of the Company's effort to broaden and diversify its customer base and the end markets it serves, Acuity Lighting Group acquired certain assets and assumed certain liabilities of American Electric Lighting in October 2001. The total cash paid was approximately \$24.8 million. American Electric Lighting manufactures and distributes lighting fixtures for use by utilities and transportation departments to light outdoor areas, streets and sidewalks. The activities of American Electric Lighting are included in the results of operations of the Company since the date of acquisition.

Working capital management was a key element in generating the Company's cash flow from operations in 2002. Consolidated working capital at August 31, 2002 was \$160.2 million compared to \$117.0 million at August 31, 2001, an increase of \$43.2 million. Consolidated working capital at August 31, 2000 was \$155.4 million. The increase in working capital in 2002 compared to 2001 was primarily due to the increased working capital required to operate American Electric Lighting and the change in classification of certain debt from current to long-term resulting from a modification in the terms of the Company's Revolving Credit Facility, partially offset by greater accounts payable and accrued liabilities, including income taxes. More importantly, operating working capital (defined as accounts receivable, net, plus inventory, minus accounts payable) declined \$21.3 million (5.3 percent) to \$378.0 million at August 31, 2002 from the end of 2001 and \$99.6 million (20.9 percent) from the end of 2000. The decline in operating working capital was primarily due to higher accounts payable resulting from more favorable terms negotiated with certain suppliers, partially offset by the increase in accounts receivable, primarily at American Electric Lighting for shipments made after the acquisition date in October 2001, and extended dating terms typical in the home improvement channel in both segments. The Company continued to further penetrate the home improvement market as part of its diversification effort to expand into other channels of distribution. Operating working capital as a percentage of net sales at the end of 2002 was 19.2 percent, compared to 20.1 percent and 23.6 percent in 2001 and 2000, respectively. Despite the weak economic environment in 2002 and the difficulty in enhancing margins, the Company did manage to generate a significant amount of free cash flow, which was used to reduce outstanding debt as more fully described below. At August 31, 2002, the current ratio of the Company was 1.37 compared to 1.26 at the end of 2001. The Company's consolidated cash position was \$2.7 million at August 31, 2002 compared to \$8.0 million at August 31, 2001. The Company's excess cash balances were used to reduce the outstanding debt under its credit facility in order to lower its overall interest expense.

Contractual Obligations

The following table summarizes the Company's contractual obligations at August 31, 2002 (in thousands):

	Total	Payments Due by Period			
		Less than One Year	1 to 3 Years	4 to 5 Years	After 5 Years
Long-term debt	\$411,376	\$ 746	\$21,970	\$17,973	\$370,687
Short-term secured borrowings*	129,200	129,200	—	—	—
Notes payable	2,545	2,545	—	—	—
Operating leases	62,951	14,252	18,972	7,894	21,833
Unconditional purchase obligations	3,207	3,207	—	—	—
Total	\$609,279	\$149,950	\$40,942	\$25,867	\$392,520

* In May 2001, NSI entered into a three-year agreement ("Receivables Facility") to borrow, on an ongoing basis, up to \$150.0 million secured by undivided interests in a defined pool of trade accounts receivable of ALG and ASP. Effective November 30, 2001, Acuity Brands assumed all of the outstanding borrowings and other obligations under the Receivables Facility. Borrowings under the Receivables Facility are subject to the annual renewal of a supporting line of credit. The Company expects to renew the supporting line of credit during fiscal 2003.

Capitalization

Total debt outstanding of \$543.1 million at August 31, 2002 declined \$100.6 million (15.6 percent) from the date of the Spin-off, November 30, 2001, and \$65.7 million (10.8 percent) from August 31, 2001. The decrease was due primarily to the strong cash flow from operations, partially offset by capital expenditures, the acquisition of American Electric Lighting and the payment of dividends. In April 2002, the Company entered into a new Revolving Credit Facility with its banks, which significantly improved its financial flexibility. The new Revolving Credit Facility consists of two components. The first component is a \$105 million revolving credit facility to be used for general corporate purposes and is due April 2005. Borrowings under this facility at August 31, 2002 were \$40.0 million. The second component is a 364-day, \$105 million facility to fund general corporate purposes, primarily working capital requirements. At August 31, 2002, there were no borrowings drawn on this facility. Total availability under the Company's Revolving Credit Facility was \$146.3 million at August 31, 2002. See Note 4 of the *Notes to Consolidated Financial Statements* for additional information regarding restrictions contained in the Revolving Credit Facility.

Total debt outstanding at August 31, 2002 was \$543.1 million compared to \$643.7 million and \$608.8 million at November 30, 2001 and August 31, 2001, respectively. During fiscal 2002, the Company's consolidated stockholders' equity increased \$18.7 million to \$402.0 million at August 31, 2002. The Company's debt to total capital ratio was 58 percent at August 31, 2002, down from approximately 63 percent at November 30, 2001.

Dividends

The Company paid quarterly common stock dividends of \$0.15 per share in each of the last three quarters of 2002. Total dividends paid were \$18.6 million in 2002. Prior to November 30, 2001, the Company was a subsidiary of NSI, as more fully described above, and did not pay dividends separately to stockholders of NSI.

Results of Operations

Consolidated Results

Fiscal 2002 can best be characterized as managing well to modestly mitigate the effects of a difficult economic environment. While many economists were predicting a soft landing for the economy, with a rebound expected in the second half of the Company's fiscal year, it became evident early on that this was not going to be the case, particularly in the Company's largest market, the non-residential, commercial construction industry. The impact on Acuity Brands of this weak economic environment was lower shipments of products to customers in many of its key sales channels in both segments and severe price competition for remaining orders, primarily in the commercial construction market. This, along with rising costs in non-discretionary areas such as insurance, made expanding profitability very difficult. As a consequence, management initiated programs to adapt to these changing market conditions by focusing on other levers to drive financial performance, including generating additional revenues from new products and channels of distribution, implementing various profit improvement and cost containment programs to limit spending and improve manufacturing efficiencies and generating free cash flow through better working capital utilization. These concerted actions allowed the Company to generate substantial cash flow in 2002 and modest earnings while continuing to serve its vast customer base.

Overall, consolidated net sales were \$1.97 billion in 2002, compared with \$1.98 billion and \$2.02 billion reported in 2001 and 2000, respectively. For the year ended August 31, 2002, the Company reported net income of \$52.0 million, compared to \$40.5 million and \$83.7 million earned in 2001 and 2000, respectively. Earnings per share were \$1.26 in 2002, compared to \$0.99 reported in 2001. Excluding the results from the divestiture of certain foreign operations of ASP in fiscal 2001 and the acquisition of American Electric Lighting in early fiscal 2002, net sales would have been \$1.91 billion in 2002, \$1.96 billion in 2001 and \$2.0 billion in 2000. Similarly, excluding the pretax impact of \$3.2 million in gains on the sale of assets and \$0.9 million for the reversal of certain restructuring expenses, net income in 2002 would have been \$49.5 million, or \$1.20 per share. In 2001, net income would have been \$66.7 million, or \$1.63 per share, excluding the pretax impact of the \$15.3 million loss from the divested operations at ASP, \$4.1 million for restructuring and impairment charges, \$3.1 million for the termination of a purchase obligation, and \$12.1 million in discontinued amortization expense from the adoption of SFAS No. 142. Net income in 2000 would have been \$95.6 million excluding the impact of the divested foreign operations and amortization expense noted above. Please refer to Notes 2 and 7 of the *Notes to Consolidated Financial Statements*, which more fully describes the discontinuation of amortization of goodwill and certain intangibles, the acquisition of American Electric Lighting, and the divestiture of the foreign operations of ASP.

Excluding the acquisition of American Electric and the divestiture of the foreign operations noted above, net sales at Acuity Brands decreased approximately three percent in 2002 when compared to 2001. The decline occurred primarily at ALG and was partially offset by a modest increase at ASP. The decline was primarily due to soft demand and lower selling prices at ALG for certain types of fixtures for industrial and office applications, partially offset by an increase in sales through the retail channel at both ALG and ASP. Consolidated net sales in 2001 declined approximately two percent when compared to 2000 primarily due to a decline in general economic conditions and a slowing in construction spending, particularly in the fourth quarter of fiscal 2001.

Consolidated operating profit was down 13.9 percent in 2002 to \$120.1 million (6.1 percent of net sales) from \$139.6 million (7.0 percent of net sales) reported in 2001. Operating profit was \$179.9 million (8.9 percent of net sales) in 2000. The decline in operating profit in 2002 was primarily a result of the lost contribution margin on the lower sales noted above, including price erosion experienced in certain key lighting fixture markets, and higher spending for non-discretionary items, partially offset by various profit improvement and cost containment programs and lower corporate expenses. Consolidated gross profit margins declined to 40.7 percent of net sales in 2002 from 42.4 percent and 42.3 percent reported in 2001 and 2000, respectively. The decline in gross profit margins occurred primarily at ALG due to the impact of significant price competition noted above, partially offset by lower costs and expenses due to various profit

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improvement initiatives and cost containment programs implemented in 2002. Gross profit margins remained essentially flat at ASP over the three-year period. Operating expenses at Acuity Brands in 2002 were \$683.4 million (34.6 percent of sales) compared to \$701.8 million (35.4 percent of sales) in 2001 and \$676.2 million (33.4 percent of sales) in 2000. Excluding amortization expense, operating expenses as a percentage of sales in 2002 remained essentially the same as 2001. Benefits of cost containment programs throughout the Company were primarily offset by increases in non-discretionary spending.

Other income (expense) for Acuity Brands is made up primarily of interest expense and other miscellaneous, non-operating activity including the gain or loss on the sale of assets, certain restructuring charges and gains or losses on foreign currency transactions. Interest expense, net was \$40.7 million, \$48.8 million and \$43.3 million in 2002, 2001 and 2000, respectively. Interest expense, net was down 16.6 percent in 2002 compared to 2001 primarily because of reduced levels of debt outstanding throughout the period and lower interest rates for much of 2002. Interest expense, net increased slightly in 2001 compared to 2000 primarily because of greater debt levels to fund working capital investments. In 2002, the Company generated a pretax gain of \$3.2 million on the sale of certain non-core assets. In 2001, the Company incurred other expenses associated with non-operating activities totaling a pretax loss of \$21.6 million, primarily for the loss associated with the disposal of certain foreign assets at ASP and restructuring and other charges related to non-operating activities of the Company.

The effective tax rate reported by the Company was 37.2 percent, 41.4 percent and 38.1 percent in 2002, 2001 and 2000, respectively. The decline in the tax rate was primarily the result of the legal entity restructuring that occurred in connection with the Spin-off and the elimination of amortization of goodwill.

Acuity Lighting Group

Acuity Lighting Group reported net sales of approximately \$1.47 billion, \$1.47 billion, and \$1.52 billion for the years ending August 31, 2002, 2001, and 2000, respectively. Excluding revenues contributed from the acquisition of American Electric Lighting in October 2001, net sales would have decreased 4.1 percent during 2002. The decline in net sales during 2002 was due primarily to lower shipments to certain commercial and industrial markets and reduced selling prices for certain key products due to intense price competition for available orders. Net sales decreased during fiscal 2001 compared to fiscal 2000 primarily due to general economic conditions and a slowing in construction spending, particularly in the fourth quarter of fiscal 2001.

Operating profit was down 24.6 percent in 2002 to \$89.6 million from \$118.8 million reported in 2001. Operating profit was \$144.4 million in 2000. The decline in operating profit in 2002 was primarily the result of the lost contribution on the lower sales noted above due principally to product mix changes and price erosion experienced in certain lighting fixture markets, higher spending for non-discretionary items such as medical and property insurance, and greater investments in certain sales and marketing programs. This decline was partially offset by profit improvement initiatives and cost containment programs that reduced costs and improved productivity in key factories in 2002. These programs included efforts to source materials more effectively, streamline production through better integration with suppliers and eliminate costs associated with non-value added activities. Also, ALG expanded its channels of distribution and the types of customers served in 2002. The adoption of a new accounting standard that eliminated amortization of goodwill and certain intangibles contributed approximately \$10.0 million to operating profit at ALG. Operating profit decreased in 2001 primarily due to lower sales, higher excess and obsolete inventory costs, and higher non-discretionary items such as medical and casualty insurance costs.

Acuity Specialty Products

Net sales at ASP were \$497.9 million in 2002, compared with \$514.1 million and \$508.0 million reported in 2001 and 2000, respectively. Excluding the results from the divestiture of certain foreign operations during 2001, net sales would have been \$493.7 million and \$481.0 million in 2001 and 2000, respectively. The increase in 2002 net sales was primarily due to continued strength in the retail sector

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and, to a lesser extent, in certain niche markets. Net sales increased during 2001 primarily as a result of increased sales volumes in both the industrial and institutional and the retail channels.

Operating profit increased 8.7 percent in 2002 to \$44.9 million from \$41.3 million reported in 2001. Operating profit was \$50.1 million in 2000. Excluding the results from the divestiture of certain foreign operations during 2001, operating profit would have been \$42.0 million and \$51.5 million in 2001 and 2000, respectively. The increase in operating profit in 2002 was primarily the result of the profit contribution on higher volumes, the impact of profit improvement programs, and the elimination of approximately \$2.1 million of amortization expense. These items were partially offset by greater investments in sales initiatives and higher insurance costs. ASP implemented programs such as sourcing initiatives, cost containment programs and aggressive marketing strategies that allowed the segment to produce solid financial performance while expanding penetration of key market niches and further diversifying the customer base. Unfortunately in 2002, many of those efforts merely offset the impact of rising costs for insurance programs. Operating profit decreased in 2001 primarily due to higher medical costs, additional costs incurred to integrate the specialty products businesses, increased energy costs, and greater investments in the development of specialty channel and national accounts.

Corporate

Corporate expenses decreased 30.2 percent in 2002 to \$14.4 million from \$20.6 million reported in 2001. Corporate expenses were \$14.6 million in 2000. The decrease in corporate expense in 2002 was primarily due to cost containment programs and the reorganization of the corporate staff. Allocated corporate expenses increased in 2001 primarily due to an increase in medical and casualty insurance costs and higher costs related to strategic and operational initiatives.

Outlook

In 2002, Acuity Brands made progress toward its objective of becoming a broader more diversified organization. Through diversification and size, management believes that Acuity Brands will be less dependent on the business cycles of a single economy, industry or product and thus able to provide more consistent and sustainable growth in earnings and cash flow on which to build the Company in the future. Actions taken in 2002 such as the acquisition of American Electric Lighting, implementation of profit improvement and cost containment initiatives coupled with a significant capital investment program over the last three years and an intense debt reduction program, have made Acuity Brands a more diversified company with greater financial resources. As noted earlier, management intends to continue to focus on the same strategic initiatives in 2003.

As the Company concludes 2002 and enters 2003, management remains confident in the long-term potential of Acuity Brands, but extremely cautious of the next twelve months. Management's caution is driven in part by the lack of any real sign of a meaningful recovery or a sustainable improvement in the business climate for the Company's key markets, particularly in North America. While some economists predict that the domestic economy will improve late in the Company's fiscal 2003, management is preparing for another year of very difficult conditions. This includes continued cost increases for insurance and certain raw materials, including steel, and the impact of deflationary pricing pressures driven by over-capacity and continued weak customer demand in key markets, principally the nonresidential construction market in North America. Therefore, the focus of the organization will remain on improving the products and services provided to customers, becoming more productive and efficient, and enhancing profitability while continuing to diversify and expand the many end markets and customers served. Additionally, the Company is evaluating various alternatives, some of which it expects to implement in fiscal 2003, to specifically address the negative impact on profit margins of rising costs and pricing pressures. These actions include price increases and other initiatives to enhance price realization throughout the Company. Assuming that economic conditions overall, and more specifically in the Company's key markets, do not deteriorate beyond their already weakened state, management expects earnings in 2003 to be between \$1.20 and \$1.40 per share. The low end of this range is based on the current economic environment and is essentially flat with fiscal 2002 earnings, excluding gains on asset sales and restructuring reversals. Should

the economy begin to improve in the second half of fiscal 2003, however, the Company could potentially deliver earnings per share at the high end of the range. Sales are expected to increase modestly in 2003, based on current market conditions.

Risks Relating to the Distribution

On November 7, 2001, the board of directors of National Service Industries, Inc. approved the spin-off of its lighting equipment and specialty products businesses into a separate publicly traded company with its own management and board of directors. The spin-off was effected on November 30, 2001 through a tax-free distribution of 100 percent of the outstanding shares of common stock of Acuity Brands, at that time a wholly-owned subsidiary of NSI owning and operating the lighting equipment and specialty product businesses. Each NSI stockholder of record as of November 16, 2001, the record date for the Distribution, received one share of Acuity Brands common stock for each share of NSI common stock held at that date. The following risks associated with Acuity Brands relate principally to the Distribution. If any of these risks develops into an actual event, the business, financial condition or results of operations of Acuity Brands could be materially adversely affected.

Failure to Qualify as a Tax-Free Transaction Could Result in Substantial Liability

NSI and Acuity Brands intend for the Distribution to be tax-free for U.S. Federal income tax purposes. Management of Acuity Brands believes the Distribution was tax-free for U.S. Federal income tax purposes. The Distribution was conditioned upon the receipt by each of NSI and Acuity Brands of opinions from each of King & Spalding, counsel to NSI and Acuity Brands, and Ernst & Young LLP, special tax advisor to NSI and Acuity Brands, that for U.S. Federal income tax purposes the receipt of Acuity Brands Shares by NSI stockholders was tax-free. Neither NSI nor Acuity Brands requested an advance ruling from the Internal Revenue Service as to the tax consequences of the Distribution. The opinions of King & Spalding and Ernst & Young LLP are subject to certain assumptions and the accuracy and completeness of certain factual representations and statements made by NSI and Acuity Brands and certain other data, documentation and other materials that each of King & Spalding and Ernst & Young LLP deemed necessary for purposes of their respective opinions. If these assumptions and factual representations were incorrect or incomplete in a material respect, the conclusions set forth in the opinions may not be correct. These opinions represent the views of King & Spalding and Ernst & Young LLP as to the interpretation of existing tax law and accordingly, such opinions are not binding on the Internal Revenue Service or the courts and no assurance can be given that the Internal Revenue Service or the courts will agree with their opinions.

If the Distribution does not qualify for tax-free treatment, a substantial corporate tax would be payable by the consolidated group of which NSI is the common parent measured by the difference between (1) the aggregate fair market value of the Acuity Brands Shares on the Distribution Date and (2) NSI's adjusted tax basis in the Acuity Brands Shares on the Distribution Date. The corporate level tax would be payable by NSI. However, Acuity Brands agreed under certain circumstances to indemnify NSI for all or a portion of this tax liability. This indemnification obligation, if triggered, could have a material adverse effect on the results of operations and financial position of Acuity Brands. In addition, under the applicable treasury regulations, each member of NSI's consolidated group (including Acuity Brands) is severally liable for such tax liability.

Furthermore, if the Distribution does not qualify as tax-free, each NSI stockholder who received Acuity Brands Shares in the Distribution would be taxed as if he had received a cash dividend equal to the fair market value of his Acuity Brands Shares on the Distribution Date.

Even if the Distribution qualifies as tax-free, NSI could nevertheless incur a substantial corporate tax liability under Section 355(e) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code" or the "Code"), if NSI or Acuity Brands were to undergo a change in control (whether by acquisition, additional share issuance or otherwise) pursuant to a plan or series of related transactions which include the Distribution. Any transaction, which occurs within the four-year period beginning two

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years prior to the Distribution, is presumed to be part of a plan or series of related transactions that includes the Distribution unless NSI establishes otherwise. Under certain circumstances, Acuity Brands would be obligated to indemnify NSI for all or a portion of this substantial corporate tax liability under the tax disaffiliation agreement. This indemnification obligation would have a material adverse effect on the results of operations and financial position of Acuity Brands.

Creditors of NSI May Challenge the Distribution as a Fraudulent Conveyance

On November 7, 2001, the NSI board of directors made a determination, based on information provided by management and financial experts, that the Distribution was permissible under applicable dividend and solvency laws. There is no certainty, however, that a court would find the decision of the NSI board to be binding on creditors of NSI and Acuity Brands or that a court would reach the same conclusions as the NSI board in determining whether NSI or Acuity Brands was insolvent at the time of, or after giving effect to, the Distribution. If a court in a lawsuit by an unpaid creditor or representative of creditors, such as a trustee in bankruptcy, were to find that at the time NSI effected the Distribution, NSI or Acuity Brands (1) was insolvent; (2) was rendered insolvent by reason of the Distribution; (3) was engaged in a business or transaction for which their respective remaining assets constituted unreasonably small capital; or (4) intended to incur, or believed it would incur, debts beyond its ability to pay as such debts matured, such court may be asked to void the Distribution (in whole or in part) as a fraudulent conveyance and require that the stockholders return the Acuity Brands Shares (in whole or in part) to NSI or require Acuity Brands to fund certain liabilities for the benefit of creditors. The measure of insolvency for purposes of the foregoing would vary depending upon the jurisdiction whose law is being applied. Generally, however, NSI or Acuity Brands would be considered insolvent if the fair value of their respective assets were less than the amount of their respective liabilities or if they incurred debt beyond their ability to repay such debt as it matures. Management believes the likelihood that creditors of NSI could successfully challenge the Distribution is remote.

Cautionary Statement Regarding Forward-Looking Information

This filing contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Consequently, actual results may differ materially from those indicated by the forward-looking statements. Statements made herein that may be considered forward-looking include statements concerning: (a) major trends shaping the specialty products industry; (b) expectations related to future commodity hedging transactions for raw materials; (c) seasonal factors affecting the Company's results of operations; (d) possible future investments in automating equipment in Maquiladora operations to partially offset potential increased labor costs; (e) the expected outcome of activities initiated in fiscal 2002 related to the ability of the Company to deliver on its full potential and provide a platform for future growth opportunities; (f) expectations regarding future liquidity and availability under the Company's financing arrangements (i) to fund operations, anticipated capital investment, and profit improvement initiatives as currently planned; (ii) to repay borrowings as currently scheduled; and (iii) to pay dividends in such amounts in 2003 as were paid in 2002; (g) anticipated benefits of investments in property, plant, and equipment; (h) expectations regarding the renewal of the supporting line of credit related to the Receivables Facility during fiscal 2003; (i) anticipated benefits of diversification and size; (j) future revenue, earnings, capital expenditures, and debt reduction; (k) management intentions related to strategic initiatives and focus in 2003; and (l) the outcome of pending or future legal or regulatory proceedings. A variety of risks and uncertainties could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties include without limitation the following: (a) the uncertainty of general business and economic conditions, including the potential for a more severe slowdown in non-residential construction, changes in interest rates, and fluctuations in commodity and raw material prices or foreign currency rates; (b) unexpected developments and outcomes in the Company's legal and environmental proceedings; (c) the risk that projected future cash flows from operations are not realized; (d) the impact of competition; (e) the uncertainty caused by operations in cyclical industries; (f) the risk that underlying assumptions or expectations related to the Distribution

prove to be inaccurate or unrealized; (g) the risk that the Distribution fails to qualify as a tax-free transaction; (h) the risk that creditors of NSI may challenge the Distribution as a fraudulent conveyance; (i) the risk of a work stoppage or an increase in organized labor activity; (j) the potential for the Company's growth to be limited by the payment of dividends; and (k) the Company's ability to realize the anticipated benefits of initiatives expected to reduce costs, improve profits, enhance customer service, increase manufacturing efficiency, reduce debt, and expand product offerings and brands in the market through a variety of channels.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

General. Acuity Brands is exposed to market risks that may impact the *Consolidated Balance Sheets, Consolidated Statements of Income, and Consolidated Statements of Cash Flows* due to changing interest rates and foreign exchange rates. Acuity Brands does not currently participate in any significant hedging activities, nor does it currently utilize any significant derivative financial instruments. The following discussion provides additional information regarding Acuity Brands' market risks.

Interest Rates. Interest rate fluctuations expose Acuity Brands' variable-rate debt to changes in interest expense and cash flows. Acuity Brands' variable-rate debt, primarily short-term secured borrowings and amounts outstanding under the Company's credit facilities, amounted to \$182.9 million and \$245.9 million at August 31, 2002 and 2001, respectively. Based on outstanding borrowings at year-end, a 10 percent increase in market interest rates at August 31, 2002 and 2001 would have resulted in additional annual after-tax interest expense of approximately \$0.2 million and \$0.6 million, respectively. Although a fluctuation in interest rates would not affect interest expense or cash flows related to the \$360.0 million publicly traded notes, Acuity Brands' primary fixed-rate debt, a 10 percent increase in market interest rates at August 31, 2002 and 2001 would have decreased the fair value of these notes to approximately \$342.0 million and \$356.1 million, respectively. See Note 4 of the *Notes to Consolidated Financial Statements* for additional information regarding the Company's long-term debt.

Foreign Exchange Rates. The majority of Acuity Brands' revenue, expense, and capital purchases are transacted in U.S. dollars. Acuity Brands does not believe a 10 percent fluctuation in average foreign currency rates would have a material effect on its consolidated financial position or results of operations. Acuity Brands does not engage in speculative transactions, nor does Acuity Brands hold or issue financial instruments for trading purposes. Acuity Brands attempts to reduce its exposure to unfavorable foreign currency translation adjustments through the use of foreign-currency denominated debt agreements.

Item 8. *Financial Statements and Supplementary Data*

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ACUITY BRANDS, INC.

REPORT OF MANAGEMENT

The management of Acuity Brands, Inc. is responsible for the integrity and objectivity of the financial information in this annual report. These financial statements are prepared in conformity with accounting principles generally accepted in the United States, using informed judgments and estimates where appropriate. The information in other sections of this report is consistent with the financial statements. The Company maintains a system of internal controls and accounting policies and procedures designed to provide reasonable assurance that assets are safeguarded and transactions are executed and recorded in accordance with management's authorization. The audit committee of the Board of Directors, composed entirely of outside directors, is responsible for monitoring the Company's accounting and reporting practices. The audit committee meets regularly with management, the internal auditors, and the independent auditors to review the work of each and to assure that each performs its responsibilities. Both the internal auditors and Ernst & Young LLP have unrestricted access to the audit committee allowing open discussion, without management's presence, on the quality of financial reporting and the adequacy of internal accounting controls.

JAMES S. BALLOUN
Chairman, President, and Chief Executive Officer

VERNON J. NAGEL
Executive Vice President and Chief Financial Officer

JOHN W. EHRIE
Vice President and Controller

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders

Acuity Brands, Inc.

We have audited the accompanying consolidated balance sheet of Acuity Brands, Inc. (formerly the National Service Industries, Inc. lighting equipment and specialty products businesses) as of August 31, 2002, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit. The financial statements and schedule of the National Service Industries, Inc. lighting equipment and specialty products businesses as of August 31, 2001, and for each of the two years in the period ended August 31, 2001, were audited by other auditors who have ceased operations and whose report dated October 12, 2001 expressed an unqualified opinion on those statements and schedule.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Acuity Brands, Inc. at August 31, 2002, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the Consolidated Financial Statements, in 2002 the Company ceased amortization of goodwill and other indefinite lived intangible assets in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

ERNST & YOUNG LLP

Atlanta, Georgia

September 30, 2002, except for the
last paragraph of Note 4,
as to which the date is
October 11, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

NOTE: This is a copy of a report previously issued by Arthur Andersen LLP, the Company's former independent accountants. The Arthur Andersen LLP report refers to certain financial information for the year ended August 31, 1999 and certain balance sheet information at August 31, 2000, which are no longer included in the accompanying financial statements. Arthur Andersen LLP has not reissued this report in connection with the filing of this Annual Report on Form 10-K.

To National Service Industries, Inc.:

We have audited the accompanying combined balance sheets of the National Service Industries, Inc. lighting equipment and chemicals businesses (to be reorganized as Acuity Brands, Inc. — Note 1) as of August 31, 2001 and 2000 and the related combined statements of income, parent's equity and comprehensive income, and cash flows for each of the three years in the period ended August 31, 2001. These combined financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the National Service Industries, Inc. lighting equipment and chemicals businesses as of August 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2001 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Atlanta, Georgia

October 12, 2001

ACUITY BRANDS, INC.
CONSOLIDATED BALANCE SHEETS

	August 31,	
	2002	2001
	(In thousands, except share and per-share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,694	\$ 8,006
Receivables, less allowance for doubtful accounts of \$8,560 at August 31, 2002 and \$8,195 at August 31, 2001	322,735	296,900
Inventories	216,942	210,783
Deferred income taxes	24,247	16,326
Prepayments and other current assets	24,379	27,101
	590,997	559,116
Property, Plant, and Equipment, at cost:		
Land	14,746	16,009
Buildings and leasehold improvements	162,296	161,779
Machinery and equipment	339,198	326,160
	516,240	503,948
Less — Accumulated depreciation and amortization	275,561	255,525
	240,679	248,423
Other Assets:		
Goodwill	344,218	331,363
Other intangibles	133,030	137,581
Other long term assets	49,030	54,092
	526,278	523,036
	\$1,357,954	\$1,330,575
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	\$ 746	\$ 357
Revolving credit facility	—	105,000
Short-term secured borrowings	129,200	105,100
Notes payable	2,545	24,666
Accounts payable	161,713	108,380
Accrued salaries, commissions, and bonuses	36,459	36,070
Other accrued liabilities	100,144	62,494
	430,807	442,067
Long-Term Debt, less current maturities	410,630	373,707
Deferred Income Taxes	23,480	31,759
Self-Insurance Reserves, less current portion	16,517	14,350
Other Long-Term Liabilities	74,568	85,394
Commitments and Contingencies		
Stockholders' Equity:		
NSI investment	—	400,296
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value, 500,000,000 shares authorized, 41,346,730 shares issued and outstanding	414	—
Paid-in capital	403,389	—
Retained earnings	21,884	—
Unearned compensation on restricted stock	(500)	—
Accumulated other comprehensive income (loss) items	(23,235)	(16,998)
	401,952	383,298
	\$1,357,954	\$1,330,575

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

ACUITY BRANDS, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended August 31,		
	2002	2001	2000
	(In thousands, except per-share data)		
Net sales	\$1,972,796	\$1,982,700	\$2,023,644
Cost of products sold	1,169,282	1,141,353	1,167,524
Gross Profit	803,514	841,347	856,120
Selling and administrative expenses	679,071	683,793	657,742
Amortization expense	4,316	17,965	18,441
Operating Profit	120,127	139,589	179,937
Other Expense (Income):			
Interest expense, net	40,690	48,797	43,299
Restructuring and other charges	(853)	4,083	—
Loss on sale of businesses	—	14,557	—
Miscellaneous (income) expense, net	(2,546)	3,000	1,347
Total Other Expense (Income)	37,291	70,437	44,646
Income before Provision for Income Taxes	82,836	69,152	135,291
Provision for Income Taxes	30,812	28,649	51,600
Net Income	\$ 52,024	\$ 40,503	\$ 83,691
Pro Forma Earnings Per Share (Unaudited):			
Basic Earnings per Share	\$ 1.26	\$ 0.99	n/a
Basic Weighted Average Number of Shares Outstanding	41,286	41,068	n/a

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

ACUITY BRANDS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended August 31,		
	2002	2001	2000
	(In thousands)		
Cash Provided by (Used for) Operating Activities:			
Net income	\$ 52,024	\$ 40,503	\$ 83,691
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation and amortization	49,494	62,911	58,485
Gain on the sale of property, plant, and equipment	(3,214)	(194)	(156)
Loss on sale of businesses	—	14,557	—
Provision for losses on accounts receivable	5,445	4,930	2,667
Restructuring and other charges	(853)	4,083	—
Change in assets and liabilities net of effect of acquisitions and divestitures —			
Receivables	(31,822)	35,258	(37,464)
Inventories	4,471	23,189	(40,054)
Deferred income taxes	(2,920)	(4,433)	321
Prepayments and other current assets	1,328	(3,948)	(3,662)
Accounts payable and accrued liabilities	81,058	5,137	(12,202)
Self-insurance reserves and other long-term liabilities	(13,011)	422	12,038
Other assets and liabilities	4,841	1,238	(9,764)
Net Cash Provided by Operating Activities	146,841	183,653	53,900
Cash Provided by (Used for) Investing Activities:			
Purchases of property, plant, and equipment	(33,482)	(47,611)	(62,913)
Proceeds from the sale of property, plant, and equipment	8,358	1,837	1,866
Proceeds from the sale of businesses	—	1,632	—
Acquisitions	(24,765)	—	(16,214)
Net Cash Used for Investing Activities	(49,889)	(44,142)	(77,261)
Cash Provided by (Used for) Financing Activities:			
Net (repayments) borrowings of notes payable	(22,121)	4,381	8,814
Issuances (repayments) of commercial paper, net (less than 90 days)	—	(221,801)	(87,762)
Issuances of commercial paper (greater than 90 days)	—	1,370	194,953
Repayments of commercial paper (greater than 90 days)	—	(15,200)	(222,750)
(Repayments) borrowings from revolving credit facility, net	(65,000)	105,000	—
Proceeds from short-term secured borrowings	24,100	105,100	—
Proceeds from issuances of long-term debt	—	—	199,798
Repayments of long-term debt	(2,688)	(7,601)	(1,196)
Employee Stock Purchase Plan share issuances	830	—	—
Dividends	(18,606)	—	—
Net activity with NSI	(18,632)	(103,386)	(69,296)
Net Cash (Used for) Provided by Financing Activities	(102,117)	(132,137)	22,561
Effect of Exchange Rate Changes on Cash	(147)	173	(271)
Net Change in Cash and Cash Equivalents	(5,312)	7,547	(1,071)
Cash and Cash Equivalents at Beginning of Year	8,006	459	1,530
Cash and Cash Equivalents at End of Year	\$ 2,694	\$ 8,006	\$ 459
Supplemental Cash Flow Information:			
Income taxes paid during the year	\$ 11,869	\$ 32,659	\$ 55,302
Interest paid during the year	41,231	43,416	42,399

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

ACUITY BRANDS, INC.

 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 AND COMPREHENSIVE INCOME

	Comprehensive Income	NSI Investment	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) Items	Unearned Compensation On Restricted Stock	Total
(In thousands, except share and per-share data)								
Balance, September 1, 1999		\$ 441,148	\$ —	\$ —	\$ —	\$ (9,294)	\$ —	\$431,854
Comprehensive income:								
Net income	\$83,691	83,691	—	—	—	—	—	83,691
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustment	(3,448)	—	—	—	—	(3,448)	—	(3,448)
Minimum pension liability adjustment	1	—	—	—	—	1	—	1
Other comprehensive income (loss)	(3,447)							
Comprehensive income	\$80,244							
Net transactions with NSI		(69,296)	—	—	—	—	—	(69,296)
Balance, August 31, 2000		455,543	—	—	—	(12,741)	—	442,802
Comprehensive income:								
Net income	\$40,503	40,503	—	—	—	—	—	40,503
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustment	(2,374)	—	—	—	—	(2,374)	—	(2,374)
Reclassification adjustment for translation loss included in net income	503	—	—	—	—	503	—	503
Minimum pension liability adjustment (net of tax of \$1,402)	(2,386)	—	—	—	—	(2,386)	—	(2,386)
Other comprehensive income (loss)	(4,257)							
Comprehensive income	\$36,246							
Net transactions with NSI		(95,750)	—	—	—	—	—	(95,750)
Balance, August 31, 2001		400,296	—	—	—	(16,998)	—	383,298
Allocation of NSI Investment		(400,296)	413	400,560			(677)	—
Comprehensive income:								
Net income	\$52,024	—	—	—	52,024	—	—	52,024
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustment	(267)	—	—	—	—	(267)	—	(267)
Minimum pension liability adjustment (net of tax of \$3,507)	(5,970)	—	—	—	—	(5,970)	—	(5,970)
Other comprehensive income (loss)	(6,237)							
Comprehensive income	\$45,787							
Amortization and forfeitures of restricted stock grants		—	—	—	—	—	177	177
Employee Stock Purchase Plan issuances(1)		—	1	829	—	—	—	830
Cash dividends of \$0.45 per share paid on common stock		—	—	—	(18,606)	—	—	(18,606)
Net transactions with NSI		—	—	2,000	(11,534)	—	—	(9,534)
Balance, August 31, 2002		\$ —	\$414	\$403,389	\$ 21,884	\$ (23,235)	\$ (500)	\$401,952

(1) 102,695 shares.

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

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1: Spin-off and Basis of Presentation

On November 7, 2001, the board of directors of National Service Industries, Inc. (“NSI”) approved the spin-off of its lighting equipment and specialty products businesses into a separate publicly traded company with its own management and board of directors. The spin-off was effected on November 30, 2001 through a tax-free distribution (“Distribution” or “Spin-off”) of 100 percent of the outstanding shares of common stock of Acuity Brands, Inc. (“Acuity Brands” or the “Company”) at that time a wholly-owned subsidiary of NSI owning and operating the lighting equipment and specialty products businesses. Each NSI stockholder of record as of November 16, 2001, the record date for the Distribution, received one share of Acuity Brands common stock for each share of NSI common stock held at that date.

These *Consolidated Financial Statements* include the accounts of the NSI businesses that comprised its lighting equipment and specialty products businesses and an allocation of corporate accounts. The lighting equipment segment produces a full range of indoor and outdoor lighting fixtures for commercial and institutional, industrial and residential applications for markets throughout the United States, Canada, Mexico, and overseas. The specialty products segment produces maintenance, sanitation, and water treatment products for customers throughout the United States, Canada, and Western Europe.

The *Consolidated Financial Statements* have been prepared on the historical cost basis in accordance with accounting principles generally accepted in the United States and present the financial position, results of operations, and cash flows of Acuity Brands and its wholly-owned subsidiaries, including Acuity Lighting Group (“ALG”) and Acuity Specialty Products Group (“ASP”). For periods prior to December 1, 2001, these financial statements were derived from the historical financial statements of NSI. Acuity Brands was allocated certain corporate assets, liabilities, and expenses of NSI during periods prior to December 1, 2001 based on an estimate of the proportion of such amounts allocable to Acuity Brands, utilizing such factors as total revenues, employee headcount, and other relevant factors. The Company believes these allocations were made on a reasonable basis. The Company believes all amounts allocated to Acuity Brands are a reasonable representation of the costs that would have been incurred if Acuity Brands had performed these functions as a stand-alone company. The *Consolidated Financial Statements* reflect an allocation of debt and related interest expense, as further described in Note 4.

In conjunction with the Spin-off, Acuity Brands and NSI entered into various agreements that addressed the allocation of assets and liabilities and defined the Company’s relationship with NSI after the Distribution, including a distribution agreement, a tax disaffiliation agreement, an employee benefits agreement, a transition services agreement, a lease agreement, and a put option agreement. The lease agreement and the put option agreement expired prior to May 31, 2002. Under the tax disaffiliation agreement, Acuity Brands will indemnify NSI for certain taxes and liabilities that may arise related to the Distribution. The agreement also sets out each party’s rights and obligations with respect to deficiencies and refunds, if any, of federal, state, local, or foreign taxes for periods before and after the Distribution. The transition services agreement provides that NSI and Acuity Brands will provide each other services in such areas as information management and technology, employee benefits administration, payroll, financial accounting and reporting, claims administration and reporting, legal, and other areas where NSI and Acuity Brands may need transitional assistance and support. Management believes the amounts paid or received associated with these services under the transition services agreement are representative of the fair value of the services provided. In addition, under the transition services agreement, the Company has committed to provide collateral associated with various property and casualty insurance programs of NSI. See Note 6 *Commitments and Contingencies* for a discussion of NSI’s standby letters of credit.

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 2: Summary of Significant Accounting Policies*Principles of Consolidation*

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

Revenue Recognition and Product Warranty

Acuity Brands records revenues as products are shipped and title passes. A provision for estimated returns, allowances, and warranty costs is recorded when products are shipped based on historical experience.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions, which include estimates of NSI costs allocated to Acuity Brands, that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Concentrations of Credit Risk

Concentrations of credit risk with respect to receivables, which are unsecured, are limited due to the wide variety of customers and markets using Acuity Brands' products, as well as their dispersion across many different geographic areas. As a result, as of August 31, 2002 and 2001, Acuity Brands does not consider itself to have any significant concentrations of credit risk.

Reclassifications

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

Inventories

Inventories are valued at the lower of cost (on a first-in, first-out basis) or market and consist of the following:

	August 31,	
	2002	2001
Raw materials and supplies	\$ 97,036	\$ 87,932
Work in progress	19,884	13,365
Finished goods	108,659	124,112
	<u>225,579</u>	<u>225,409</u>
Less: reserves	(8,637)	(14,626)
	<u>\$216,942</u>	<u>\$210,783</u>

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Goodwill and Other Intangibles

In July 2001, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 prospectively prohibits the pooling of interests method of accounting for business combinations initiated after June 30, 2001. SFAS No. 142 requires companies to cease amortizing goodwill that existed at June 30, 2001 and establishes a new method for testing goodwill for impairment on an annual basis (or an interim basis if an event occurs that might reduce the fair value of a reporting unit below its carrying value). Any goodwill resulting from acquisitions completed after June 30, 2001 will not be amortized. SFAS No. 142 also requires that an identifiable intangible asset which is determined to have an indefinite useful economic life not be amortized, but be separately tested for impairment using a fair value based approach. The Company adopted SFAS No. 142 effective September 1, 2001 resulting in a decrease in amortization expense of approximately \$12.1 million during the year ended August 31, 2002 when compared to the year ended August 31, 2001.

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

	August 31, 2002		August 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Trade names and trademarks	\$13,030	\$ (1,347)	\$13,030	\$ (912)
Distribution network	53,000	(5,448)	53,000	(3,681)
Other	17,076	(8,295)	20,470	(6,889)
Total	\$83,106	\$(15,090)	\$86,500	\$(11,482)
Unamortized intangible assets:				
Trade names	\$65,014		\$62,563	

The Company amortizes trade names with definite lives, trademarks, and the distribution network over their estimated useful lives of 30 years. Other amortized intangible assets consist primarily of patented technology and restrictive covenant agreements, which are amortized over their estimated useful lives of 12 years and 3 years, respectively. The Company recorded amortization expense of \$4,316 and \$5,863 related to intangible assets with definite lives during fiscal 2002 and fiscal 2001, respectively. Projected amortization expense is approximately \$3.2 million in each of the next five years.

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

	ALG	ASP	Total
Balance as of August 31, 2001	\$301,350	\$30,013	\$331,363
Goodwill acquired during the year	9,263	—	9,263
SFAS No. 141/142 adoption reclassification	2,692	—	2,692
Other	798	102	900
Balance as of August 31, 2002	\$314,103	\$30,115	\$344,218

Acuity Lighting Group and Acuity Specialty Products Group each tested goodwill and intangible assets with indefinite useful lives for impairment during fiscal 2002, as required by SFAS No. 142, utilizing a combination of valuation techniques including the expected present value of future cash flows, a market multiple approach, and a comparable transaction approach. This analysis did not result in an impairment during fiscal 2002.

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Prior to the adoption of SFAS No. 142, \$3,460 of goodwill associated with a 1969 acquisition was not amortized. Remaining amounts of goodwill (\$327,903 at August 31, 2001) were amortized over estimated useful lives ranging from 10 years to 40 years. Had the Company accounted for goodwill and intangibles with indefinite useful lives consistent with the provisions of SFAS No. 142 in prior periods, the Company's net income would have been affected as follows:

	Year Ended August 31,		
	2002	2001	2000
Reported net income	\$52,024	\$40,503	\$83,691
Add back: Goodwill amortization	—	9,891	10,088
Add back: Trade name amortization	—	990	990
Adjusted net income	\$52,024	\$51,384	\$94,769
Basic earnings per share*:			
Reported net income	\$ 1.26	\$ 0.99	
Add back: Goodwill amortization	—	0.24	
Add back: Trade name amortization	—	0.03	
Adjusted net income	\$ 1.26	\$ 1.26	

* Earnings per share for the years ended August 31, 2002 and 2001 are pro forma. See Note 5 for additional information.

The Company is required to test its goodwill and intangibles with indefinite useful lives for impairment on a periodic basis, which could have an adverse effect on the Company's *Consolidated Financial Statements* if these assets are deemed impaired.

Other Long Term Assets

Other long-term assets consisted of the following (in thousands):

	August 31,	
	2002	2001
Long term investments(1)	\$28,677	\$34,287
Prepaid pension costs	12,693	14,330
Intangible pension asset	1,580	1,795
Note receivable, net	2,165	—
Debt issue costs	2,385	2,832
Miscellaneous	1,530	848
	\$49,030	\$54,092

- (1) Long Term Investments — The Company maintains certain investments that generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The investments primarily consist of marketable equity securities and fixed income securities, are stated at fair value and are classified as trading in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Realized and unrealized gains and losses are included in the *Consolidated Statements of Income* and generally offset the change in the deferred compensation liability.

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Other Long Term Liabilities

Other long-term liabilities consisted of the following (in thousands):

	August 31,	
	2002	2001
Accrued pension liability	\$15,622	\$10,570
Postretirement benefits other than pensions(1)	56,380	64,381
Nonemployee director stock unit plan	970	2,538
Postemployment benefit obligation(2)	497	446
Long term incentive plan	—	6,421
Miscellaneous	1,099	1,038
	<u>\$74,568</u>	<u>\$85,394</u>

- (1) Postretirement Benefits Other Than Pensions — The Company maintains several non-qualified retirement plans for the benefit of eligible employees, primarily deferred compensation plans. The deferred compensation plans provide for elective deferrals of an eligible employee's compensation and, in some cases, for matching contributions by the Company. In addition, one plan provides for an automatic contribution by the Company of three percent of an eligible employee's compensation. Deferred compensation associated with these plans, together with the Company's contributions and accumulated earnings, is distributable in cash pursuant to the terms of the plans, either after specified periods of time or after retirement.
- (2) Postemployment Benefit Obligation — SFAS No. 112, *Employers' Accounting for Postemployment Benefits*, requires the accrual of the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement. Acuity Brands' accrual relates primarily to the liability for life insurance coverage for certain eligible employees.

Earnings Per Share

Earnings per share data has not been presented since the businesses that comprise Acuity Brands were wholly-owned subsidiaries of NSI, or businesses thereof, during a portion of or for all of the periods presented and were recapitalized as part of the Distribution.

Pro Forma Earnings Per Share (Unaudited)

Pro forma basic earnings per share is calculated as net income divided by the pro forma weighted average number of common shares outstanding. Pro forma weighted average shares outstanding has been computed by applying the distribution ratio of one share of Acuity Brands common stock to the historical NSI weighted average shares outstanding for the same period presented. Pro forma earnings per share information is unaudited and has been presented for the years ended August 31, 2002 and 2001 only.

Shipping and Handling Fees and Costs

In September 2000, the Emerging Issues Task Force issued EITF 00-10, *Accounting for Shipping and Handling Fees and Costs*. EITF 00-10 requires shipping and handling fees billed to customers to be classified as revenue and shipping and handling costs to be either classified as cost of sales or disclosed in the notes to the financial statements. The Company includes shipping and handling fees billed to customers in *Net sales*. Shipping and handling costs associated with inbound freight are generally recorded in *Cost of products sold*. Other shipping and handling costs are included in *Selling and administrative*

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

expenses and totaled \$114.1 million, \$114.6 million, and \$114.7 million in fiscal 2002, 2001, and 2000, respectively.

Depreciation

For financial reporting purposes, depreciation is determined principally on a straight-line basis using estimated useful lives of plant and equipment (20 to 40 years for buildings and 3 to 15 years for machinery and equipment) while accelerated depreciation methods are used for income tax purposes. Leasehold improvements are amortized over the life of the lease or the useful life of the improvement whichever is shorter.

Research and Development

Research and development costs are expensed as incurred. Research and development expenses amounted to \$22.0 million, \$15.6 million, and \$17.2 million during fiscal years 2002, 2001, and 2000, respectively.

Foreign Currency Translation

The functional currency for the foreign operations of Acuity Brands is the local currency in most cases. The translation of foreign currencies into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet dates and for revenue and expense accounts using a weighted average exchange rate during the year. The gains or losses resulting from the translation are included in *Accumulated Other Comprehensive Income (Loss) Items* in the *Consolidated Statements of Stockholders' Equity and Comprehensive Income* and are excluded from net income.

Gains or losses resulting from foreign currency transactions are included in *Miscellaneous (income) expense, net* in the *Consolidated Statements of Income* and were insignificant in fiscal years 2002, 2001, and 2000.

Interest Expense, Net

Interest expense, net, is comprised primarily of interest expense on long-term debt, revolving credit facility borrowings, and short-term secured borrowings partially offset by interest income on cash and cash equivalents.

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

	Years Ended August 31,		
	2002	2001	2000
Interest expense	\$41,196	\$49,421	\$43,638
Interest income	(506)	(624)	(339)
Interest expense, net	\$40,690	\$48,797	\$43,299

Miscellaneous (Income) Expense, net

Miscellaneous (income) expense, net, is comprised primarily of gains or losses resulting from the sale of fixed assets and gains or losses on foreign currency transactions. Additionally, during 2001, *Miscellaneous (income) expense, net*, includes a charge of approximately \$3.1 million related to the early termination of a purchase contract.

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Accounting Standards Adopted in Fiscal 2002

As mentioned above, Acuity Brands adopted SFAS No. 141 and SFAS No. 142 in the first quarter of fiscal 2002.

Accounting Standards Yet to Be Adopted

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* and supersedes the provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* with regard to reporting the effects of a disposal of a segment of a business. SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria required to classify an asset as held-for-sale. Under SFAS No. 144, more dispositions will qualify for discontinued operations treatment in the income statement and expected future operating losses from discontinued operations will be displayed in discontinued operations in the period in which the losses are incurred. SFAS No. 144 is effective for all fiscal years beginning after December 15, 2001. Acuity Brands will adopt this statement effective September 1, 2002. Adoption of this statement will not have a significant effect on the Company's consolidated results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. The principal difference between SFAS No. 146 and Issue No. 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. A fundamental conclusion reached by the FASB in SFAS No. 146 is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. Therefore, SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in Issue No. 94-3. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Acuity Brands will adopt SFAS No. 146 effective September 1, 2002. Adoption of this statement will not have a significant effect on the Company's consolidated results of operations or financial position.

Note 3: Pension and Profit Sharing Plans

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

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables reflect the status of Acuity Brands' pension plans at August 31, 2002 and 2001:

	August 31,	
	2002	2001
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 87,222	\$ 77,590
Service cost	3,437	2,553
Interest cost	6,534	6,270
Curtailement	(952)	—
Actuarial loss	2,972	5,095
Benefits paid	(5,911)	(3,699)
Other	1,362	(587)
Benefit obligation at end of year	<u>\$ 94,664</u>	<u>\$ 87,222</u>
Change in Plan Assets:		
Fair value of plan assets at beginning of year	\$ 83,489	\$ 86,917
Actual return on plan assets	(3,878)	46
Employer contributions	4,828	1,138
Employee contributions	226	229
Benefits paid	(5,911)	(3,699)
Other	408	(1,142)
Fair value of plan assets at end of year	<u>\$ 79,162</u>	<u>\$ 83,489</u>
Funded Status:		
Funded status	\$(15,502)	\$ (3,733)
Unrecognized actuarial loss	25,768	11,164
Unrecognized transition asset	(503)	(629)
Unrecognized prior service cost	2,153	2,541
Prepaid pension expense	<u>\$ 11,916</u>	<u>\$ 9,343</u>
Amounts Recognized in the Consolidated Balance Sheets Consist of:		
Prepaid benefit cost	\$ 12,693	\$ 14,330
Accrued benefit liability	(15,622)	(10,570)
Intangible asset	1,580	1,795
Accumulated other comprehensive loss	13,265	3,788
Net amount recognized at year-end	<u>\$ 11,916</u>	<u>\$ 9,343</u>

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for defined benefit pension plans with both projected and accumulated benefit obligations in excess of plan assets were \$51.6 million, \$48.8 million, and \$34.1 million, respectively, as of August 31, 2002, and \$28.7 million, \$27.4 million, and \$17.4 million, respectively, as of August 31, 2001.

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Components of net periodic pension cost for the fiscal years ended August 31, 2002, 2001, and 2000 included the following:

	2002	2001	2000
Service cost	\$ 3,437	\$ 2,553	\$ 2,877
Interest cost	6,534	6,270	5,851
Expected return on plan assets	(7,600)	(8,038)	(7,511)
Amortization of prior service cost	434	418	386
Amortization of transitional asset	(126)	(140)	(148)
Recognized actuarial loss (gain)	205	(18)	53
Net periodic pension cost	\$ 2,884	\$ 1,045	\$ 1,508

Weighted average assumptions in fiscal year 2002 and 2001 included the following:

	2002	2001
Discount rate	7.2%	7.7%
Expected return on plan assets	9.3%	9.3%
Rate of compensation increase	4.9%	5.0%

It is Acuity Brands' policy to adjust, on an annual basis, the discount rate used to determine the projected benefit obligation to approximate rates on high-quality, long-term obligations.

Acuity Brands also has profit sharing and 401(k) plans to which both employees and the Company make contributions. The cost to Acuity Brands for these plans was \$5.0 million in 2002, \$4.3 million in 2001, and \$4.7 million in 2000. Effective February 2002, participants in all of the Company's profit sharing and 401(k) plans were permitted to direct the investments of all funds in their respective plan, thereby eliminating the nonparticipant-directed funds. Employer matching amounts are allocated in accordance with the participants' investment elections for elective deferrals. At August 31, 2002, assets of the 401(k) plans included shares of the Company's common stock with a market value of approximately \$7.3 million, which represented approximately three percent of the total fair market value of assets in the Company's 401(k) plans.

Note 4: Long-Term Debt and Lines of Credit

As part of the distribution agreement between NSI and Acuity Brands, all but approximately \$5.0 million of NSI's total consolidated outstanding debt was assumed by Acuity Brands or refinanced with new borrowings by Acuity Brands. Accordingly, for purposes of the historical presentation of the Company's financial position as of August 31, 2001, all but \$5.0 million of NSI's total consolidated outstanding debt has been presented as obligations of Acuity Brands. For purposes of the historical presentation of the results of operations of Acuity Brands, the Company has reflected interest expense related to the debt allocated to it.

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Long-term debt at August 31, 2002 and 2001, consisted of the following:

	2002	2001
3-Year Revolving Credit Facility	\$ 40,000	\$ —
6% notes due February 2009 with an effective interest rate of 6.04%, net of unamortized discount of \$268 in 2002 and \$310 in 2001	159,732	159,690
8.375% notes due August 2010 with an effective interest rate of 8.398%, net of unamortized discount of \$195 in 2002 and \$219 in 2001	199,805	199,781
Other notes, payable in installments to 2021	11,839	14,593
	<u>411,376</u>	<u>374,064</u>
Less — Amounts payable within one year included in current liabilities	746	357
	<u>\$410,630</u>	<u>\$373,707</u>

Future annual principal payments of long-term debt are as follows:

Fiscal Year	Amount
2003	\$ 746
2004	1,211
2005	20,759
2006	17,973
2007	—
Thereafter	370,687
	<u>\$411,376</u>

In May 2001, NSI entered into a three-year agreement (“Receivables Facility”) to borrow, on an ongoing basis, up to \$150.0 million secured by undivided interests in a defined pool of trade accounts receivable of ALG and ASP. Borrowings under the Receivables Facility are subject to the annual renewal of a supporting line of credit. Effective November 30, 2001, Acuity Brands assumed all of the outstanding borrowings and other obligations under the Receivables Facility. Net trade accounts receivable pledged as security for borrowings under the Receivables Facility totaled \$239.1 million at August 31, 2002. Borrowings at August 31, 2002 and 2001 under the Receivables Facility totaled \$129.2 million and \$105.1 million, respectively, and are included in *Short-term secured borrowings* in the accompanying *Consolidated Balance Sheets*. Interest rates under the Receivables Facility vary with commercial paper rates plus an applicable margin. The interest rate was 1.80 percent and 3.90 percent at August 31, 2002 and 2001, respectively.

During fiscal 2002, Acuity Brands entered into a new financing agreement (“Revolving Credit Facility”), which replaced the Company’s \$240.0 million, 364-day committed credit facility which was due to mature in October 2002. This Revolving Credit Facility, which has two components, allows for borrowings of up to \$210.0 million. The first component is a 364-day committed credit facility of \$105.0 million, which is scheduled to mature in April 2003. The second component is a three-year credit facility of \$105.0 million and is scheduled to mature in April 2005. At August 31, 2002, the Company had \$40.0 million in outstanding borrowings under the three-year component of the Revolving Credit Facility, which are classified as long-term in the accompanying *Consolidated Balance Sheets*. The interest rate on outstanding borrowings was 3.05 percent at August 31, 2002. At August 31, 2002, \$23.7 million in letters of credit related to both the Company’s and NSI’s property and casualty insurance programs was outstanding under the Revolving Credit Facility. See Note 6 *Commitments and Contingencies* for a discussion of NSI’s standby letters of credit. These letters of credit decrease the amount of credit available

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

under the Revolving Credit Facility. Outstanding borrowings under the Company's credit facility at August 31, 2001 were \$105.0 million at an interest rate of 4.1 percent. Additional borrowings of \$11.7 million were outstanding under NSI's uncommitted bank lines at August 31, 2001 at an interest rate of 5.0 percent.

The Revolving Credit Facility contains financial covenants calculated quarterly including a leverage ratio of total indebtedness at the end of each quarter to EBITDA for the trailing four quarters and an interest coverage ratio. Interest rates under the Revolving Credit Facility are based on LIBOR plus a margin that is based on the Company's credit rating for unsecured long-term public debt and its leverage ratio. Acuity Brands pays an annual fee on the commitment based on the Company's credit rating for unsecured long-term public debt. The Company was in compliance with all covenants contained in its credit agreement for each quarter end in 2002.

The Company's Receivables Facility and Revolving Credit Facility each contain "Material Adverse Effect" provisions. Generally, if the Company were to experience an event causing a material adverse effect on the Company's financial condition, operations, or properties, as defined in the agreements, additional future borrowings under either facility may be denied. None of the Company's existing debt instruments include provisions that would require an acceleration of repayments based solely on changes in the Company's credit ratings.

At August 31, 2002, the Company had total availability under its Revolving Credit Facility of \$146.3 million. Acuity Brands also had uncommitted foreign bank lines of credit totaling \$4.5 million at August 31, 2002. Outstanding borrowings under the foreign bank lines at August 31, 2002 were \$2.5 million, at a weighted-average interest rate of 4.19 percent. At August 31, 2001, outstanding borrowings under NSI's foreign bank lines were \$13.0 million, at a weighted-average interest rate of 4.90 percent.

At August 31, 2002, the Company had an additional \$11.7 million in letters of credit outstanding that provide back-up support for the Company's industrial revenue bonds. These letters of credit do not reduce the amount of credit available under the Revolving Credit Facility.

In January 1999, NSI issued \$160.0 million in ten-year publicly traded notes bearing a coupon rate of 6.0 percent. In August 2000, NSI issued \$200.0 million in ten-year publicly traded notes bearing a coupon rate of 8.375 percent. Pursuant to a supplemental indenture executed in contemplation of the Distribution, Acuity Brands and its principal operating subsidiaries have become the obligors of the notes, and NSI, effective as of the Distribution, was relieved of all obligations with respect to the notes. The fair values of the \$160.0 million and \$200.0 million notes, based on quoted market prices, were approximately \$148.4 million and \$208.1 million, respectively, at August 31, 2002. Excluding the \$160.0 million and \$200.0 million notes, long-term debt recorded in the accompanying *Consolidated Balance Sheets* approximates fair value based on the borrowing rates currently available to Acuity Brands for bank loans with similar terms and average maturities.

In October 2002, Acuity Brands entered into a new loan agreement ("Term Loan"), secured by certain land and buildings of the Company. Proceeds from the Term Loan were used to reduce borrowings under the Revolving Credit Facility and to provide the Company additional liquidity. The Term Loan contains financial covenants similar to the Company's credit facility including a leverage ratio of total indebtedness to EBITDA and an interest coverage ratio. Interest rates under the Term Loan are based on one-month LIBOR plus a margin. The principal payment table above reflects future annual principal payments associated with the Term Loan.

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 5: Common Stock and Related Matters

NSI's Investment

Upon completion of the Distribution on November 30, 2001, Acuity Brands became an independent Company owned by the NSI shareholders of record as of November 16, 2001. Prior to November 30, 2001, Acuity Brands (previously and temporarily named L & C Spingo, Inc.) and the subsidiaries comprising the lighting equipment and specialty products businesses were wholly-owned by NSI. Accordingly, prior to November 30, 2001, stockholders' equity was comprised of NSI's investment in these subsidiaries. Beginning on November 30, 2001 stockholders' equity reflected the outstanding stock, paid-in capital, and other stockholders' equity items of Acuity Brands and its wholly owned subsidiaries.

Stockholder Protection Rights Agreement

Prior to the Spin-off, the Company's board of directors adopted a Stockholder Protection Rights Agreement (the "Rights Agreement"). The Rights Agreement contains provisions that are intended to protect the Company's stockholders in the event of an unsolicited offer to acquire the Company, including offers that do not treat all stockholders equally and other coercive, unfair, or inadequate takeover bids and practices that could impair the ability of the Company's board of directors to fully represent stockholders' interests. Pursuant to the Rights Agreement, the Company's board of directors declared a dividend of one "Right" for each outstanding share of the Company's common stock as of November 16, 2001. The Rights will be represented by, and trade together with, the Company's common stock until and unless certain events occur, including the acquisition of 15% or more of the Company's common stock by a person or group of affiliated or associated persons (with certain exceptions, "Acquiring Persons"). Unless previously redeemed by the Company's board of directors, upon the occurrence of one of the specified triggering events, each Right that is not held by an Acquiring Person will entitle its holder to purchase one share of common stock or, under certain circumstances, additional shares of common stock at a discounted price. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company on terms not approved by the Company's board of directors. Thus, the Rights are intended to encourage persons who may seek to acquire control of the Company to initiate such an acquisition through negotiation with the board of directors.

Preferred Stock

The Company has 50,000,000 shares of preferred stock authorized, 5,000,000 of which have been reserved for issuance under the Stockholder Protection Rights Agreement. No shares of preferred stock had been issued at August 31, 2002 and 2001.

Earnings per Share

Pro forma basic earnings per share is calculated as net income divided by the pro forma weighted average number of common shares outstanding. Pro forma weighted average shares outstanding has been computed by applying the distribution ratio of one share of Acuity Brands common stock to the historical NSI weighted average shares outstanding for the same period presented. Public trading of Acuity Brands stock did not commence until December 3, 2001 (other than on a when-issued basis); therefore, no historical market share prices exist for the calculation of the potential dilutive effect of stock options for periods prior to the second quarter of fiscal 2002. As a result, pro forma diluted earnings per share are not presented.

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table calculates pro forma basic earnings per common share for the years ended August 31, 2002 and 2001:

	Years Ended August 31,	
	2002	2001
Pro Forma basic earnings per common share:		
Net income (in thousands)	\$52,024	\$40,503
Basic weighted average shares outstanding (in thousands)	41,286	41,068
Basic earnings per common share	\$ 1.26	\$ 0.99

Stock-Based Compensation

Pursuant to the employee benefits agreement, NSI stock options held by employees of Acuity Brands were converted to, and replaced by, Acuity Brands stock options at the time of the Distribution. Acuity Brands multiplied the number of shares purchasable under each converted stock option by a ratio determined at the time of the Distribution, based on the respective trading prices of NSI and Acuity Brands shares, and divided the exercise price per share of each option by the same ratio. Fractional shares were rounded down to the nearest whole number of shares. All other terms of the converted stock options remain the same as those in effect immediately prior to the Distribution. Accordingly, no compensation expense resulted from the replacement of the options.

Effective November 30, 2001, Acuity Brands adopted the Acuity Brands, Inc. Long-Term Incentive Plan (the "Plan") for the benefit of officers and other key management personnel ("Participants"). An aggregate of 8.1 million shares are authorized for issuance under the Plan. Stock options generally become exercisable over a three or four-year period from the date of grant. The Plan also provides for the issuance of performance-based and restricted stock awards.

Aspiration Achievement Incentive Awards may be earned and issued to Participants based on a level of achievement of performance over a multi-year performance cycle. Amounts (credited) charged to compensation expense for 2002, 2001, and 2000 were approximately \$(1.1 million), \$0.7 million, and \$6.7 million, respectively. No Aspiration Achievement Incentive Awards are currently outstanding, except with respect to the performance cycle ended August 31, 2002.

At August 31, 2002, 218,180 shares of Acuity Brands common stock were subject to restricted stock awards held by the Company's officers and other key employees. Under the awards, restricted shares are granted in 20 percent increments when the Company's stock price equals or exceeds certain stock price targets for thirty consecutive calendar days (the vesting start date) and vest ratably in four equal annual installments beginning one year from the vesting start date. At the time of the Distribution and in accordance with the employee benefits agreement, each employee of Acuity Brands holding outstanding shares of NSI restricted stock received a dividend of one Acuity Brands restricted share for each NSI restricted share held. Acuity Brands restricted shares received as a dividend on NSI restricted stock are subject to the same restrictions and terms, including vesting provisions of the NSI restricted stock. Compensation expense of \$0.2 million was recognized in the *Consolidated Financial Statements* during fiscal 2002 for the restricted stock awards. Restricted share awards that had not reached a vesting start date, and their related stock price targets, were converted to Acuity Brands restricted share awards in the same manner as stock options. Shares that have not reached a vesting start date expire five years from the date of the grant. All other terms of the converted grants remain the same as those in effect immediately prior to the Distribution.

In November 2001, the Company's board of directors approved the Acuity Brands, Inc. 2001 Nonemployee Directors' Stock Option Plan, under which 300,000 shares are authorized for issuance. The

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

stock options granted under this plan become exercisable one year from the date of grant. During fiscal 2002, options for 50,000 shares were granted under this plan.

Under all stock option plans, the options generally expire 10 years from the date of grant and have an exercise price equal to the fair market value of the Company's stock on the date of grant. At August 31, 2002, shares available for grant under all plans were 1,063,489, less 22,566 shares required for the payment of outstanding Aspiration Achievement Incentive Awards.

Stock option transactions for the stock option plans and stock option agreements during the year ended August 31, 2002 were as follows:

	Outstanding		Exercisable	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at August 31, 2001	—	—	—	—
NSI options converted at the Spin-off	4,278,325	\$22.97		
Granted	3,004,051	\$13.84		
Exercised	(1,053)	\$16.50		
Cancelled	(200,025)	\$16.38		
Outstanding at August 31, 2002	7,081,298	\$19.15	2,712,343	\$25.25
Range of option exercise prices:				
\$10.00 – \$15.00 (average life – 9.3 years)	2,900,928	\$13.80	35,554	\$13.80
\$15.01 – \$20.00 (average life – 8.1 years)	1,755,900	\$16.61	606,954	\$16.70
\$20.01 – \$25.00 (average life – 5.5 years)	1,094,189	\$23.11	843,589	\$22.96
\$25.01 – \$30.00 (average life – 4.6 years)	826,540	\$28.59	723,750	\$28.43
\$30.01 – \$40.00 (average life – 4.4 years)	503,741	\$35.63	502,496	\$35.64

The Company accounts for the employee and director plans under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. Additionally, Acuity Brands has adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. Accordingly, no compensation expense has been recognized for these stock option plans in the *Consolidated Financial Statements*. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards during fiscal year 2002, consistent with the provisions of SFAS No. 123, the Company's net income and pro forma earnings per share would have been reduced to the following pro forma amounts:

	2002
Pro Forma Information:	
Net income	\$49,282
Basic earnings per share	1.19

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The pro forma effect of applying SFAS No. 123 may not be representative of the effect on reported net income in future years because options vest over several years and additional awards are generally made each year.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The weighted-average grant-date fair value of options was \$3.98. The following weighted average assumptions were used to estimate fair value:

	2002
Dividend yield	4.3%
Expected volatility	34.0%
Risk-free interest rate	5.2%
Expected life of options	10 years
Turnover rate	5.0%

Employee Stock Purchase Plan

In November 2001, Acuity Brands adopted the Acuity Brands, Inc. Employee Stock Purchase Plan for the benefit of eligible employees. Under the plan, employees may purchase, through payroll deduction, the Company's common stock at a 15 percent discount. Shares are purchased quarterly at 85 percent of the lower of the fair market value of the Company's common stock on the first business day of the quarterly plan period or the last business day of the quarterly plan period. There were 1,500,000 shares of the Company's common stock reserved for purchase under the plan, of which 1,397,305 shares remain available for purchase under the plan. Employees may participate at their discretion. Management neither encourages nor discourages employee participation.

Note 6: Commitments and Contingencies**Self-Insurance**

It is the current policy of Acuity Brands to self insure, up to certain limits, for certain insurable risks consisting primarily of physical loss to property; business interruptions resulting from such loss; and workers' compensation, comprehensive general, and auto liability. Insurance coverage is obtained for catastrophic property and casualty exposures as well as those risks required to be insured by law or contract. Based on an independent actuary's estimate of the aggregate liability for claims incurred, a provision for claims under the self-insured program is recorded and revised annually.

The Company is also self-insured for the majority of its medical benefits plans. The Company estimates its aggregate liability for claims incurred by applying a lag factor to the Company's historical claims and administrative cost experience. The appropriateness of the Company's lag factor is evaluated and revised annually, if necessary.

Leases

Acuity Brands leases certain of its buildings and equipment under noncancelable lease agreements. Minimum lease payments under noncancelable leases for years subsequent to August 31, 2002, are as follows: 2003 – \$14.3 million; 2004 – \$11.5 million; 2005 – \$7.4 million; 2006 – \$4.5 million; 2007 – \$3.3 million; after 2007 – \$21.8 million.

Total rent expense was \$17.8 million in 2002, \$12.3 million in 2001, and \$14.5 million in 2000.

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Collective Bargaining Agreements

Approximately 40 percent of the Company's total work force is covered by collective bargaining agreements. Collective bargaining agreements representing approximately 24 percent of the Company's work force will expire within one year.

Litigation

Acuity Brands is subject to various legal claims arising in the normal course of business, including patent infringement and product liability claims. Based on information currently available, it is the opinion of management that the ultimate resolution of pending and threatened legal proceedings will not have a material adverse effect on the financial condition or results of operations of Acuity Brands. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such matters, if unfavorable, could have a material adverse effect on the future financial results of Acuity Brands. Acuity Brands establishes reserves for legal claims when payments associated with the claims become probable and can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher than the amounts reserved for such claims.

Genlyte Thomas Group LLC ("Genlyte Thomas") filed suit on March 29, 2000, in the United States District Court, Western District of Kentucky, alleging that certain Lithonia Lighting products infringe a patent related to a frame for recessed lighting fixtures and that the infringement is willful. The Company believes that it has valid defenses to the lawsuit and is vigorously defending the asserted allegations. Specifically, the Company has received a formal opinion from independent patent counsel that the patent is invalid and unenforceable. In discovery, which recently has been substantially completed, Genlyte Thomas submitted an expert report on its damages claim asserting that Genlyte Thomas has sustained approximately \$20 million in damages. Any damages awarded at trial may be increased by the court by up to three times if willful infringement is found. The Company has reserved the expected defense costs for this litigation. Extensive pre-trial motions have been filed and it is expected that the case, if it proceeds to trial, will not be heard until late 2003.

Environmental Matters

The operations of the Company are subject to comprehensive laws and regulations relating to the generation, storage, handling, transportation, and disposal of hazardous substances and solid and hazardous wastes and to the remediation of contaminated sites. Permits and environmental controls are required for certain of the Company's operations to limit air and water pollution, and these permits are subject to modification, renewal, and revocation by issuing authorities. Acuity Brands believes that it is in substantial compliance with all material environmental laws, regulations, and permits. On an ongoing basis, Acuity Brands incurs capital and operating costs relating to environmental compliance. Environmental laws and regulations have generally become stricter in recent years, and the cost of responding to future changes may be substantial.

Acuity Brands establishes reserves for known environmental claims when payments associated with the claims become probable and the costs can be reasonably estimated. The environmental reserves of Acuity Brands, for all periods presented in the *Consolidated Financial Statements*, are immaterial. The actual cost of environmental issues may be higher than that reserved due to difficulty in estimating such costs and potential changes in the status of government regulations.

Certain environmental laws can impose liability regardless of fault. The federal Superfund law is an example of such an environmental law. However, management believes that the liability under Superfund is mitigated by the presence of other parties who will share in the costs associated with the clean up of sites. The extent of liability is determined on a case-by-case basis taking into account many factors,

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

including the number of other parties whose status or activities also subjects them to liability regardless of fault.

Acuity Brands is currently a party to, or otherwise involved in, legal proceedings in connection with state and federal Superfund sites. Based on information currently available, the Company believes its liability is immaterial at each of the currently active sites which it does not own where it has been named as a responsible party or a potentially responsible party (“PRP”) due to its limited involvement at the site and/or the number of viable PRPs. For example, the preliminary allocation among 48 PRPs at the Crymes Landfill site in Georgia indicates that Acuity Brands’ liability is not significant, and there are more than 1,000 PRPs at the M&J Solvents site in Georgia. For property that Acuity Brands owns on Seaboard Industrial Boulevard in Atlanta, Georgia, the Company has conducted an investigation on its properties and adjoining properties and submitted a Compliance Status Report (“CSR”) to the State of Georgia Environmental Protection Division (“EPD”) pursuant to the Georgia Hazardous Site Response Act. Until the EPD approves the CSR and Acuity Brands evaluates the necessity for and scope of any appropriate corrective action, Acuity Brands will not be able to determine whether corrective action will be required and what the costs of such action will be.

Standby Letters of Credit

In conjunction with the separation of their businesses, Acuity Brands and NSI entered into various agreements that addressed the allocation of assets and liabilities and that defined the future relationships between Acuity Brands and NSI after the Distribution, including a transition services agreement. In addition to other services described in the agreement, the transition services agreement provides that Acuity Brands will, for a fee, provide collateral associated with various property and casualty insurance programs of NSI not to exceed the following amounts:

Period		Letters of Credit
Beginning	Ending	
September 1, 2002	October 31, 2002	\$10.4 million
November 1, 2002	October 31, 2003	\$ 8.0 million
November 1, 2003	October 31, 2004	\$ 5.0 million
November 1, 2004	October 31, 2005	\$ 2.0 million

Standby letters of credit provided to state regulatory authorities to support self-insurance programs for property and casualty liabilities decrease the amount of credit available on revolving credit facilities. At August 31, 2002, \$10.4 million on the Revolving Credit Facility of Acuity Brands related to these standby letters of credit was unavailable for use by Acuity Brands. The management of Acuity Brands believes it has sufficient capacity under its Revolving Credit Facility to accommodate this requirement under the transition services agreement.

In the event NSI is unable to fulfill its obligations under certain of its property and casualty programs, the standby letters of credit could be drawn upon and Acuity Brands would be required to fund the drawn amount. In such event, NSI would be obligated to reimburse Acuity Brands for such amounts. The management of Acuity Brands believes it is unlikely that these letters of credit will be drawn upon.

Risks and Uncertainties Related to the Distribution

On November 7, 2001, the NSI board of directors made a determination, based on information provided by management and financial experts, that the Distribution was permissible under applicable dividend and solvency laws. There is no certainty, however, that a court would find the decision of the NSI board to be binding on creditors of NSI and Acuity or that a court would reach the same conclusions as the NSI board in determining whether NSI or Acuity was solvent and adequately capitalized at the

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

time of, or after giving effect to, the Distribution. If a court in a lawsuit by an unpaid creditor or representative of creditors, such as a trustee in bankruptcy, were to find that at the time NSI effected the Distribution, NSI or Acuity (1) was insolvent; (2) was rendered insolvent by reason of the Distribution; (3) was engaged in a business or transaction for which their respective remaining assets constituted unreasonably small capital; or (4) intended to incur, or believed it would incur, debts beyond its ability to pay as such debts matured, such court may be asked to void the Distribution (in whole or in part) as a fraudulent conveyance and require that the stockholders return the Acuity Brands shares (in whole or in part) to NSI or require Acuity Brands to fund certain liabilities for the benefit of creditors. The measure of insolvency for purposes of the foregoing will vary depending upon the jurisdiction whose law is being applied. Generally, however, NSI or Acuity Brands would be considered insolvent if the fair value of their respective assets was less than the amount of their respective liabilities or if either incurred debt beyond its ability to repay such debt as it matures. Management believes the likelihood that creditors of NSI could successfully challenge the Distribution is remote.

Note 7: Acquisitions and Dispositions

In October 2001, Acuity Brands acquired certain assets and assumed certain liabilities of the American Electric Lighting® and Dark-to-Light® product lines of the Thomas & Betts Corporation for approximately \$24.8 million in cash. The activities of American Electric Lighting are included in the results of operations of the Company since the date of acquisition. The allocation of the purchase price resulted in goodwill of approximately \$9.3 million. Additionally, the Company recorded \$2.5 million related to the trade names American Electric Lighting® and Dark-to-Light®. The Company will not amortize these trade names, as the Company believes the useful lives are indefinite. The Company believes that the acquisition will provide the lighting equipment segment with greater presence in the utility and transportation infrastructure markets and will add breadth to the current utility offerings in high-end decorative street and area lighting of Acuity Brands. The allocation of the purchase price was as follows:

	2002
Current assets	\$11,601
Property, plant, and equipment	8,493
Intangibles	2,451
Goodwill	9,263
Liabilities	(7,043)
	\$24,765

Acquisition spending in 2000 totaled \$16.2 million and related to the cash-out of remaining Holophane Corporation (“Holophane”) shares. NSI purchased Holophane in July 1999 for approximately \$470.8 million. Of the total purchase price, \$454.6 million was paid during fiscal 1999 and \$16.2 million was paid during fiscal 2000.

During fiscal 2001, as part of an initiative to refocus the overseas operations of the specialty products segment, Acuity Brands sold its Australian subsidiary resulting in a pretax loss of \$5.6 million. In addition, Acuity Brands sold its French operations, as well as certain trademarks and formulas for a pretax loss of \$9.0 million. The combined pretax loss of \$14.6 million is included in *Loss on sale of businesses* in the *Consolidated Statements of Income*.

Note 8: Restructuring Expense and Other Charges

In the first quarter of fiscal 2000, the lighting equipment segment recorded a \$1.0 million pretax charge for closing a manufacturing facility in California. This charge represented termination benefits for

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

341 hourly employees and was recorded in *Cost of products sold* in the 2000 *Consolidated Statements of Income*. All amounts accrued were paid during fiscal 2000 with no significant revisions to either the number of terminated employees or the amount of benefits initially accrued.

During fiscal 2001, the lighting equipment segment incurred severance charges of \$1.6 million for the termination of 116 manufacturing and salaried employees, all of whom were terminated prior to the end of the fiscal year. Additionally, the specialty products segment recorded \$0.7 million of severance costs related to the termination of 18 manufacturing and salaried employees, all of whom were terminated prior to the end of the fiscal year. Unrelated to the severance charges, the lighting equipment and specialty products segments disposed of certain fixed assets, resulting in losses of \$1.4 million and \$0.4 million, respectively. The resulting losses were included in the *Consolidated Statements of Income* under the caption *Restructuring and other charges*.

During fiscal 2002, management realized lower than anticipated costs associated with severance charges in the lighting equipment segment. Accordingly, the related reserve was reversed and \$0.9 million in income was recorded and is included in *Restructuring and other charges* in the *Consolidated Statements of Income*.

Note 9: Income Taxes

Prior to the Distribution, Acuity Brands was included in the consolidated federal income tax return of NSI. Acuity Brands' provision for income taxes in the accompanying statements of income reflects Federal, state, and foreign income taxes calculated using the separate return basis. Acuity Brands accounts for income taxes using the asset and liability approach as prescribed by SFAS No. 109, *Accounting for Income Taxes*. This approach requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Using the enacted tax rates in effect for the year in which the differences are expected to reverse, deferred tax liabilities and assets are determined based on the differences between the financial reporting and the tax basis of an asset or liability.

The provision for income taxes consists of the following components:

	Years Ended August 31,		
	2002	2001	2000
Provision for current Federal taxes	\$23,509	\$29,171	\$40,527
Provision for current state taxes	2,225	1,744	2,134
Provision for current foreign taxes	4,189	5,058	4,657
Provision for deferred taxes	889	(7,324)	4,282
Total provision for income taxes	\$30,812	\$28,649	\$51,600

A reconciliation from the Federal statutory rate to the total provision for income taxes is as follows:

	Years Ended August 31,		
	2002	2001	2000
Federal income tax computed at statutory rate	\$28,993	\$24,203	\$47,352
State income tax, net of Federal income tax benefit	1,657	1,342	3,518
Foreign and other, net	162	3,104	730
Total provision for income taxes	\$30,812	\$28,649	\$51,600

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Components of the net deferred income tax (asset) liability at August 31, 2002 and 2001 include:

	August 31,	
	2002	2001
Deferred Income Tax Liabilities:		
Depreciation	\$ 1,745	\$ 11,583
Pension	—	4,468
Intangibles	47,900	48,614
Other liabilities	718	2,613
Total deferred income tax liabilities	50,363	67,278
Deferred Income Tax Assets:		
Self-insurance	(9,991)	(6,898)
Pension	(4,060)	—
Deferred compensation	(25,245)	(23,025)
Foreign tax losses	(959)	(969)
Restructuring and other accruals not yet deductible	(10,025)	(12,804)
Other assets	(850)	(8,149)
Total deferred income tax assets	(51,130)	(51,845)
Net deferred income tax (asset) liability	\$ (767)	\$ 15,433

At August 31, 2002, Acuity Brands had foreign net operating loss carryforwards of \$2.8 million that can be carried forward indefinitely.

Note 10: Quarterly Financial Data (Unaudited)

	Sales	Gross Profit	Income Before Taxes	Net Income	Basic Earnings Per Share*	Pro Forma Basic Earnings Per Share*	Diluted Earnings Per Share*
2002							
1st Quarter	\$481,691	\$196,510	\$18,600	\$11,534	n/a	\$0.28	n/a
2nd Quarter	468,245	189,982	17,033	10,558	\$0.26	n/a	\$0.26
3rd Quarter	507,576	208,392	23,506	14,571	0.35	n/a	0.35
4th Quarter	515,284	208,630	23,697	15,361	0.37	n/a	0.37
2001							
1st Quarter	\$502,646	\$216,288	\$22,512	\$13,507	n/a	\$0.33	n/a
2nd Quarter	471,283	200,685	21,802	13,081	n/a	0.32	n/a
3rd Quarter	503,132	216,090	14,174	7,516	n/a	0.18	n/a
4th Quarter	505,639	208,284	10,664	6,399	n/a	0.16	n/a

* Earnings per share for the periods prior to second quarter fiscal 2002 are pro forma. See Note 5 for additional information.

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 11: Business Segment Information

	Sales	Operating Profit (Loss)	Total Assets	Depreciation Expense	Amortization Expense	Capital Expenditures and Acquisitions
2002						
ALG	\$1,474,882	\$ 89,553	\$1,100,175	\$36,323	\$ 4,196	\$47,342
ASP	497,914	44,931	220,165	8,047	120	10,456
Corporate	—	(14,357)	37,614	808	—	449
	<u>\$1,972,796</u>	<u>\$120,127</u>	<u>\$1,357,954</u>	<u>\$45,178</u>	<u>\$ 4,316</u>	<u>\$58,247</u>
2001						
ALG	\$1,468,558	\$118,829	\$1,082,676	\$36,197	\$14,861	\$37,389
ASP	514,142	41,337	211,579	8,131	3,104	8,912
Corporate	—	(20,577)	36,320	618	—	1,310
	<u>\$1,982,700</u>	<u>\$139,589</u>	<u>\$1,330,575</u>	<u>\$44,946</u>	<u>\$17,965</u>	<u>\$47,611</u>
2000						
ALG	\$1,515,652	\$144,417	\$1,142,227	\$31,792	\$14,994	\$68,721
ASP	507,992	50,107	241,645	7,705	3,447	9,946
Corporate	—	(14,587)	39,008	547	—	460
	<u>\$2,023,644</u>	<u>\$179,937</u>	<u>\$1,422,880</u>	<u>\$40,044</u>	<u>\$18,441</u>	<u>\$79,127</u>

ACUITY BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The geographic distribution of Acuity Brands' net sales, operating profit, and long-lived assets is summarized in the following table:

	2002	2001	2000
Net Sales (1)			
United States	\$1,749,387	\$1,749,498	\$1,786,901
Canada	103,061	105,825	102,821
European countries	63,643	72,568	80,785
Other	56,705	54,809	53,137
	<u>\$1,972,796</u>	<u>\$1,982,700</u>	<u>\$2,023,644</u>
Operating profit			
United States	\$ 114,877	\$ 130,044	\$ 169,869
Canada	822	5,150	7,058
European countries	3,582	2,315	1,096
Other	846	2,080	1,914
	<u>\$ 120,127</u>	<u>\$ 139,589</u>	<u>\$ 179,937</u>
Long-lived assets (2)			
United States	\$ 696,447	\$ 730,590	\$ 746,548
Canada	12,949	13,434	15,196
European countries	22,058	18,279	26,041
Other	35,503	9,156	14,116
	<u>\$ 766,957</u>	<u>\$ 771,459</u>	<u>\$ 801,901</u>

(1) Sales are attributed to each country based on the selling location.

(2) Long-lived assets include net property, plant, and equipment, goodwill and intangibles, and other long-term assets.

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

At a meeting held on April 29, 2002, the Audit Committee of the board of directors of Acuity Brands voted to dismiss Arthur Andersen LLP as its independent accountant effective April 30, 2002 and approved the engagement of Ernst & Young LLP as its independent auditor for the fiscal year ending August 31, 2002. Further information is contained in the Company's Form 8-K filed with the Securities and Exchange Commission (the "Commission") on April 30, 2002 and is incorporated herein by reference.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item, with respect to directors, is included under the caption *Director Nominees for Three-Year Term Expiring at the 2005 Annual Meeting* and *Directors with Terms Expiring at the 2003 and 2004 Annual Meetings* of the Company's proxy statement for the annual meeting of stockholders to be held December 19, 2002, filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

The information required by this item, with respect to executive officers, is included under the caption *Management — Executive Officers* of the Company's proxy statement for the annual meeting of stockholders to be held December 19, 2002, filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

The information required by this item, with respect to beneficial ownership reporting, is included under the caption *Section 16(a) Beneficial Ownership Reporting Compliance* of the Company's proxy statement for the annual meeting of stockholders to be held December 19, 2002, filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item is included under the captions *Compensation of Directors, Other Information Concerning the Board and its Committees, Compensation Committee Interlocks and Insider Participation, Summary Compensation Table, Option Grants in Last Fiscal Year, Aggregated Option Exercises and Fiscal Year-End Option Values, Employment Contracts, Severance Arrangements, and Other Agreements, and Pension and Supplemental Retirement Benefits* of the Company's proxy statement for the annual meeting of stockholders to be held December 19, 2002, filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

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

The information required by this item is included under the captions *Beneficial Ownership of the Corporation's Securities* and *Disclosure with Respect to Equity Compensation Plans* of the Company's proxy statement for the annual meeting of stockholders to be held December 19, 2002, filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by this item is included under the caption *Certain Relationships and Related Party Transactions* of the Company's proxy statement for the annual meeting of stockholders to be held December 19, 2002, filed with the Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 14. Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act is

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recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Securities Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

As required by Commission's rules, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures within 90 days of the filing date of this annual report. This evaluation was carried out under the supervision and with the participation of management, including the principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of the Company's disclosure controls and procedures are effective. However, the Company is enhancing disclosure controls and procedures during the first quarter of fiscal 2003 by formalizing certain policies and procedures, primarily those involving the reporting of financial results of its businesses. Because all disclosure procedures must rely to some degree on actions to be taken by employees throughout the organization, such as reporting of material events, the Company believes that it cannot fully eliminate risks relating to disclosure requirements.

Internal controls, which may be viewed as part of disclosure controls and procedures, are designed to provide reasonable assurances that: (a) transactions are executed in accordance with management's general or specific authorization; (b) transactions are recorded as necessary (i) to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States or any other criteria applicable to such statements, and (ii) to maintain accountability for assets; (c) access to assets is permitted only in accordance with management's general or specific authorization; and (d) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. There were no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date they were evaluated. However, during the Company's first quarter of fiscal 2003, it began a comprehensive assessment of its internal controls utilizing its internal audit efforts. The Company is in the process of reviewing internal controls and other risk areas and changes to the internal control structure could result from that review.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

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

- (1) Report of Management
Report of Independent Auditors (Ernst & Young LLP)
Report of Independent Public Accountants (Arthur Andersen LLP)
Consolidated Balance Sheets — as of August 31, 2002 and 2001
Consolidated Statements of Income for the years ended August 31, 2002, 2001, and 2000
Consolidated Statements of Stockholders' Equity and Comprehensive Income for the years ended August 31, 2002, 2001, and 2000
Consolidated Statements of Cash Flows for the years ended August 31, 2002, 2001, and 2000
Notes to Consolidated Financial Statements
- (2) Financial Statement Schedules:
Schedule II Valuation and Qualifying Accounts
Any of schedules I through V not listed above have been omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.
- (3) Exhibits filed with this report (begins on next page):
Copies of exhibits will be furnished to stockholders upon request at a nominal fee. Requests should be sent to Acuity Brands, Inc., Investor Relations Department, 1170 Peachtree Street, N.E., Suite 2400, Atlanta, Georgia 30309.

INDEX TO EXHIBITS

EXHIBIT 2	Agreement and Plan of Distribution by and between National Service Industries, Inc. and Acuity Brands, Inc., dated as of November 30, 2001.	Reference is made to Exhibit 2.1 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
EXHIBIT 3	(a) Restated Certificate of Incorporation of Acuity Brands, Inc. (b) Amended and Restated By-Laws of Acuity Brands, Inc.	Reference is made to Exhibit 3.1 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference. Reference is made to Exhibit 3.2 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
EXHIBIT 4	(a) Form of Certificate representing Acuity Brands, Inc. Common Stock. (b) Stockholder Protection Rights Agreement, dated as of November 12, 2001, between Acuity Brands, Inc. and Wells Fargo Bank Minnesota, N.A. (c) First Supplemental Indenture, dated as of October 23, 2001, to Indenture dated January 26, 1999, between National Service Industries, Inc., L&C Spinco, Inc., L&C Lighting Group, Inc., The Zep Group, Inc. and SunTrust Bank. (d) Indenture dated as of January 26, 1999. (e) Form of 6% Note due February 1, 2009. (f) Form of 8.375% Note due August 1, 2010.	Reference is made to Exhibit 4.1 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference. Reference is made to Exhibit 4.2 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference. Reference is made to Exhibit 10.10 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference. Reference is made to Exhibit 10.11 to Amendment No. 2 to the Registration Statement on Form 10, filed by L&C Spinco, Inc. on September 6, 2001, which is incorporated herein by reference. Reference is made to Exhibit 10.12 to Amendment No. 2 to the Registration Statement on Form 10, filed by L&C Spinco, Inc. on September 6, 2001, which is incorporated herein by reference. Reference is made to Exhibit 10.13 to Amendment No. 2 to the Registration Statement on Form 10, filed by L&C Spinco, Inc. on September 6, 2001, which is incorporated herein by reference.

EXHIBIT 10(i)A

(1) Tax Disaffiliation Agreement, dated as of November 30, 2001, by and between National Service Industries, Inc. and Acuity Brands, Inc.

(2) Transition Services Agreement, dated as of November 30, 2001, by and between National Service Industries, Inc. and Acuity Brands, Inc.

(3) Agreement and Plan of Distribution, dated as of November 30, 2001, by and between National Service Industries, Inc. and Acuity Brands, Inc.

(4) Employee Benefits Agreement, by and between National Service Industries, Inc. and Acuity Brands, Inc., dated as of November 30, 2001.

(5) Put Option Agreement, dated as of November 30, 2001, by and between National Service Industries, Inc. and Acuity Brands, Inc.

(6) Lease Agreement, dated as of November 30, 2001, by and between National Service Industries, Inc. and Acuity Brands, Inc.

(7) 364-Day Revolving Credit Agreement, dated as of October 3, 2001, among L&C Spinco, Inc., the Subsidiary Borrowers from time to time parties thereto, the Lenders from time to time parties thereto, Bank One, N.A., as Administrative Agent, Wachovia Bank, N.A., as Syndication Agent and SunTrust Bank as Documentation Agent.

(8) 364-Day Revolving Credit Agreement dated as of April 8, 2002, among Acuity Brands, Inc., the Subsidiary Borrowers from time to time parties hereto, the Lenders, from time to time parties hereto, Bank One, NA as Administrative Agent, and Wachovia Bank, N.A., as Syndication Agent.

Reference is made to Exhibit 10.1 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.

Reference is made to Exhibit 10.2 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.

Reference is made to Exhibit 2.1 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.

Reference is made to Exhibit 10.4 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.

Reference is made to Exhibit 10.24 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.

Reference is made to Exhibit 10.9 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.

Reference is made to Exhibit 10.23 to Amendment No. 4 to the Registration Statement on Form 10, filed by L&C Spinco, Inc. on October 29, 2001, which is incorporated herein by reference.

Reference is made to Exhibit 10(i)A(1) of registrant's Form 10-Q as filed with the Commission on April 12, 2002, which is incorporated herein by reference.

	(9) Assignment Agreement and Amendment to Increase Aggregate Commitment to 364-Day Revolving Credit Agreement, dated as of May 14, 2002, by and among Bank One, NA and Wachovia Bank, N.A., Dresdner Bank AG New York & Grand Cayman Branches, Acuity Brands, Inc., Acuity Lighting Group, Inc. and Acuity Specialty Products Group, Inc., and Bank One, NA, in its capacity as Administrative Agent.	Reference is made to Exhibit 10(i)A(1) of registrant's Form 10-Q as filed with the Commission on July 12, 2002, which is incorporated herein by reference.
	(10) 3-Year Revolving Credit Agreement, dated as of April 8, 2002, among Acuity Brands, Inc., the Subsidiary Borrowers from time to time parties hereto, Bank One, NA as Administrative Agent, and Wachovia Bank, N.A., as Syndication Agent.	Reference is made to Exhibit 10(i)A(2) of registrant's Form 10-Q as filed with the Commission on April 12, 2002, which is incorporated herein by reference.
	(11) Assignment Agreement and Amendment to Increase Aggregate Commitment to 3-Year Revolving Credit Agreement, dated as of May 14, 2002, by and among Bank One, NA and Wachovia Bank, N.A., Dresdner Bank AG New York & Grand Cayman Branches, Acuity Brands, Inc., Acuity Lighting Group, Inc. and Acuity Specialty Products Group, Inc., and Bank One, NA, in its capacity as Administrative Agent.	Reference is made to Exhibit 10(i)A(2) of registrant's Form 10-Q as filed with the Commission on July 12, 2002, which is incorporated herein by reference.
	(12) Deed to Secure Debt and Security Agreement, dated as of October 11, 2002.	Filed with the Securities and Exchange Commission as part of this Form 10-K.
	(13) Promissory Note, dated as of October 11, 2002.	Filed with the Securities and Exchange Commission as part of this Form 10-K.
EXHIBIT 10(iii)A	Management Contracts and Compensatory Arrangements:	
	(1) Acuity Brands, Inc. Long-Term Incentive Plan.	Reference is made to Exhibit 10.5 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(2) Acuity Brands, Inc. 2001 Nonemployee Directors' Stock Option Plan.	Reference is made to Exhibit 10.6 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.

(3) Amendment No. 1 to Acuity Brands, Inc. Nonemployee Directors' Stock Option Plan, dated December 20, 2001.	Reference is made to Exhibit 10(iii)A(3) of registrant's Form 10-Q as filed with the Commission on January 14, 2002, which is incorporated herein by reference.
(4) Form of Indemnification Agreement.	Reference is made to Exhibit 10.7 to the Registration Statement on Form 10, filed by L&C Spinco, Inc. with the Commission on July 3, 2001, which is incorporated herein by reference.
(5) Form of Severance Protection Agreement.	Reference is made to Exhibit 10.8 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(6) Acuity Brands, Inc. Supplemental Deferred Savings Plan.	Reference is made to Exhibit 10.14 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(7) Acuity Brands, Inc. Executives' Deferred Compensation Plan.	Reference is made to Exhibit 10.15 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(8) Acuity Brands, Inc. Senior Management Benefit Plan.	Reference is made to Exhibit 10.16 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(9) Acuity Brands, Inc. Nonemployee Director Deferred Stock Unit Plan.	Reference is made to Exhibit 10.17 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(10) Acuity Brands, Inc. Executive Benefits Trust.	Reference is made to Exhibit 10.18 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(11) Acuity Brands, Inc. Supplemental Retirement Plan for Executives.	Reference is made to Exhibit 10.19 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(12) Acuity Brands, Inc. Management Compensation and Incentive Plan.	Reference is made to Exhibit 10.20 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(13) Acuity Brands, Inc. Benefits Protection Trust.	Reference is made to Exhibit 10.21 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.

	(14) Assumption Letter of Acuity Brands, Inc. with respect to Employment Letter Agreement between National Service Industries, Inc. and James S. Balloun.	Reference is made to Exhibit 10.22(a)(i) of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(15) Employment Letter Agreement between National Service Industries, Inc. and James S. Balloun, dated February 1, 1996.	Reference is made to Exhibit 10(iii)A(2) of the Form 10-Q of National Service Industries, Inc. for the quarter ended November 30, 1997, which is incorporated herein by reference.
	(16) Assumption Letter of Acuity Brands, Inc. with respect to Employment Letter Agreement between National Service Industries, Inc. and Joseph G. Parham, Jr.	Reference is made to Exhibit 10.22(b)(i) of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(17) Employment Letter Agreement between National Service Industries, Inc. and Joseph G. Parham, Jr., dated May 3, 2000.	Reference is made to Exhibit 10(iii)A(2) of the Form 10-Q of National Service Industries, Inc. for the quarter ended May 31, 2000, which is incorporated herein by reference.
	(18) Assumption Letter of Acuity Brands, Inc., with respect to Employment Letter Agreement between National Service Industries, Inc. and James H. Heagle.	Reference is made to Exhibit 10.22(c) of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(19) Employment Letter Agreement between National Service Industries, Inc. and James H. Heagle, dated March 28, 2000.	Reference is made to Exhibit 10.22(d) to Amendment No. 3 to the Registration Statement on Form 10, filed by L&C Spingo, Inc. on September 27, 2001, which is incorporated herein by reference.
	(20) Employment Letter Agreement between Acuity Brands, Inc. and Vernon J. Nagel, dated as of October 30, 2001.	Reference is made to Exhibit 10(iii)A(20) of registrant's Form 10-Q as filed with the Commission on January 14, 2002, which is incorporated herein by reference.
	(21) Form of Acuity Brands, Inc. Letter regarding Bonuses.	Reference is made to Exhibit 10.25 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
EXHIBIT 16	Letter of Arthur Andersen regarding Change in Certifying Accountant.	Reference is made to Exhibit 16 of registrant's Form 8-K/ A as filed with the Commission on May 1, 2002, which is incorporated herein by reference.
EXHIBIT 21	List of Subsidiaries.	Filed with the Securities and Exchange Commission as part of this Form 10-K.
EXHIBIT 23	Consent of Independent Auditors.	Filed with the Securities and Exchange Commission as part of this Form 10-K.

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EXHIBIT 24	Powers of Attorney.	Filed with the Securities and Exchange Commission as part of this Form 10-K.
EXHIBIT 99	(1) Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by James S. Balloun. (2) Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Vernon J. Nagel.	Filed with the Securities and Exchange Commission as part of this Form 10-K. Filed with the Securities and Exchange Commission as part of this Form 10-K.
(b) None.		

CERTIFICATIONS

I, James S. Balloun, certify that:

1. I have reviewed this annual report on Form 10-K of Acuity Brands, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ JAMES S. BALLOUN

James S. Balloun
Chairman, President and Chief Executive Officer

Date: November 11, 2002

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I, Vernon J. Nagel, certify that:

1. I have reviewed this annual report on Form 10-K of Acuity Brands, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ VERNON J. NAGEL

Vernon J. Nagel
Executive Vice President and Chief Financial Officer

Date: November 11, 2002

ACUITY BRANDS, INC.

SCHEDULE II

Valuation and Qualifying Accounts

for the Years Ended August 31, 2002, 2001, and 2000

	Balance at Beginning of Year	Additions Charged to		Deductions	Balance at End of Year
		Costs and Expenses	Other Accounts(1)		
(In thousands)					
Year Ended August 31, 2002:					
Reserve for doubtful accounts	\$ 8,195	5,445	55	5,135	\$ 8,560
Reserve for estimated warranty costs	\$ 1,823	2,787	6,209	4,156	\$ 6,663
Reserve for estimated returns and allowances	\$ 4,079	57,206	—	56,968	\$ 4,317
Self-insurance reserve(2)	\$17,938	13,007	—	9,295	\$21,650
Reserve for restructuring(3)	\$ 2,130	(853)	—	1,277	\$ —
Year Ended August 31, 2001:					
Reserve for doubtful accounts	\$ 6,570	4,930	—	3,305	\$ 8,195
Reserve for warranty costs	\$ 1,164	1,806	—	1,147	\$ 1,823
Reserve for estimated returns and allowances	\$ 4,006	37,266	—	37,193	\$ 4,079
Self-insurance reserve(2)	\$13,621	11,254	—	6,937	\$17,938
Reserve for restructuring	\$ —	2,298	—	168	\$ 2,130
Year Ended August 31, 2000:					
Reserve for doubtful accounts	\$ 5,470	2,667	1,927	3,494	\$ 6,570
Reserve for warranty costs	\$ 1,086	1,030	—	952	\$ 1,164
Reserve for estimated returns and allowances	\$ 4,416	36,736	—	37,146	\$ 4,006
Self-insurance reserve(2)	\$15,158	5,055	—	6,592	\$13,621

(1) Recoveries credited to the reserve and reserves recorded in acquisitions.

(2) Includes reserves for workers' compensation, auto, product, and general liability claims.

(3) During fiscal 2002, management realized lower than anticipated costs associated with severance charges in the lighting equipment segment. Accordingly, the related reserve was reversed and \$0.9 million in income was recorded and is included in *Restructuring and other charges* in the *Consolidated Statements of Income*.

ACUITY LIGHTING GROUP, INC.,
a Delaware corporation, as Grantor

to

REGIONS BANK,
an Alabama Banking Corporation, as Grantee
(Lender)

DEED TO SECURE DEBT AND
SECURITY AGREEMENT

Dated: As of October 11, 2002

PREPARED BY AND UPON RECORDATION
RETURN TO:

STITES & HARBISON
3350 Riverwood Parkway
Suite 1700
Atlanta, Georgia 30339
Attn: Richard W. Stephens

File No.: 934A.80400

THIS DEED TO SECURE DEBT AND SECURITY AGREEMENT (the "Security Instrument") is made as of the 11th day of October, 2002, by ACUITY LIGHTING GROUP, INC., a Delaware corporation, having its principal place of business at 1170 Peachtree Street, N.E., Suite 2400, Atlanta, Georgia 30309, as Grantor ("Owner") to REGIONS BANK, an Alabama banking corporation, having an address at 6600 Peachtree Dunwoody Road, 400 Embassy Row, Suite 210, Atlanta, Georgia 30328, as Grantee ("Lender").

W I T N E S S E T H:

FOR AND IN CONSIDERATION of certain financial accommodations to ACUITY BRANDS, INC. (occasionally referred to herein as the "Parent"), ACUITY LIGHTING GROUP, INC. and ACUITY SPECIALTY PRODUCTS GROUP, INC., Delaware corporations, whose addresses are 1170 Peachtree Street, N.E., Suite 2400, Atlanta, Georgia 30309 (hereinafter referred to individually as "each Borrower" and collectively as "Borrower") by Grantee resulting in the Debt which is hereinafter more particularly described and defined, which financial accommodations are of benefit to Grantor (the three borrowing companies being related companies in that they have common ownership), and in order to secure the Debt, Grantor hereby grants, bargains, conveys, transfers, assigns and sells unto Grantee the following described land in Rockdale County, Georgia:

SEE EXHIBIT "A" ATTACHED HERETO AND
INCORPORATED HEREIN BY REFERENCE

Owner desires to secure the payment of the Debt (as defined in Article 2) and the performance of all of its obligations under the Note and the Other Obligations (as defined in Article 2).

ARTICLE 1- GRANTS OF SECURITY

Section 1.1 PROPERTY MORTGAGED. Owner does hereby irrevocably mortgage, grant, bargain, sell, pledge, assign, warrant, transfer and convey unto Lender, and grant a security interest to Lender in, the following property, rights, interests and estates now owned, or hereafter acquired by Owner (collectively, the "Property"):

(a) Land. The real property described in Exhibit "A" attached hereto and made a part hereof (the "Land");

(b) Improvements. The buildings, structures, additions, enlargements, extensions, modifications, repairs, replacements and improvements now or hereafter erected or located on the Land (the "Improvements");

(c) Easements. All easements, rights-of-way or use, rights, strips and gores of land, streets, ways, alleys, passages, sewer rights, water, water courses, water rights and powers, air rights and development rights, and all estates, rights, titles, interests, privileges, liberties, servitudes, tenements, hereditaments and appurtenances of any nature whatsoever, in any way now or hereafter belonging, relating or pertaining to the Land and the Improvements and the reversion and reversions, remainder and remainders, and all land lying in the bed of any street, road or avenue,

opened or proposed, in front of or adjoining the Land, to the center line thereof and all the estates, rights, titles, interests, dower and rights of dower, curtesy and rights of curtesy, property, possession, claim and demand whatsoever, both at law and in equity, of Owner of, in and to the Land and the Improvements and every part and parcel thereof, with the appurtenances thereto;

(d) Fixtures and Personal Property. All machinery, equipment, fixtures (including, but not limited to, all heating, air conditioning, plumbing, lighting, communications and elevator fixtures, but specifically excluding trade fixtures) and other such property owned by Owner and/or Borrower, or in which Owner and/or Borrower have or shall have an interest, now or hereafter affixed to the Land and the Improvements, or appurtenant thereto, provided such property is attached to and used in connection with the present or future operation and occupancy of the Land and the Improvements (collectively, the "Personal Property"), and the right, title and interest of Owner and/or Borrower in and to any of the Personal Property which may be subject to any security interests, as defined in the Uniform Commercial Code, as adopted and enacted by the state or states where any of the Property is located (the "Uniform Commercial Code"), superior in lien to the lien of this Security Instrument and all proceeds and products of the above;

(e) Leases and Rents. All leases, subleases and other agreements relating to the use, enjoyment or occupancy of the Land and/or the Improvements heretofore or hereafter entered into and all extensions, amendments and modifications thereto, whether before or after the filing by or against Owner of any petition for relief under 11 U.S.C. 101 et seq., as the same may be amended from time to time (the "Bankruptcy Code") (the "Leases") and all right, title and interest of Owner, its successors and assigns therein and thereunder, including, without limitation, any guaranties of the lessees' obligations thereunder, cash or securities deposited thereunder to secure the performance by the lessees of their obligations thereunder and all rents, additional rents, revenues, issues and profits (including all oil and gas or other mineral royalties and bonuses) from the Land and the Improvements whether paid or accruing before or after the filing by or against Owner of any petition for relief under the Bankruptcy Code (the "Rents") and all proceeds from the sale or other disposition of the Leases and the right to receive and apply the Rents to the payment of the Debt;

(f) Insurance Proceeds. All proceeds of and any unearned premiums on any insurance policies covering the Property, including, without limitation, the right to receive and apply the proceeds of any insurance, judgments, or settlements made in lieu thereof, for damage to the Property;

(g) Condemnation Awards. All awards or payments, including interest thereon, which may heretofore and hereafter be made with respect to the Property, whether from the exercise of the right of eminent domain (including but not limited to any transfer made in lieu of or in anticipation of the exercise of the right), or for a change of grade, or for any other injury to or decrease in the value of the Property;

(h) Conversion. All proceeds of the conversion, voluntary or involuntary, of any of the foregoing including, without limitation, proceeds of insurance and condemnation awards, into cash or liquidation claims, except as expressly set forth below;

(i) Rights. The right, in the name and on behalf of Owner, to appear in and defend any action or proceeding brought with respect to the Property and to commence any action or proceeding to protect the interest of Lender in the Property (but only following the occurrence of and during the continuance of an Event of Default);

(j) Agreements. All agreements, contracts, certificates, instruments, franchises, permits, licenses, plans, specifications and other documents, now or hereafter entered into, and all rights therein and thereto, respecting or pertaining solely to the use, occupation, construction, management or operation of the Land and any part thereof and any Improvements and all right, title and interest of Owner therein and thereunder, including, without limitation, the right, upon the occurrence and during the continuance of an Event of Default (defined below), to receive and collect any sums payable to Owner thereunder; and

(k) Other Rights. Any and all other rights of Owner in and to the items set forth in Subsections (a) through (m) above.

Section 1.2 ASSIGNMENT OF LEASES AND RENTS. Owner hereby absolutely and unconditionally assigns to Lender Owner's right, title and interest in and to all current and future Leases and Rents; it being intended by Owner that this assignment constitutes a present, absolute assignment and not an assignment for additional security only. Nevertheless, subject to the terms of this Section 1.2 and Section 3.8, Lender grants to Owner a revocable license to collect and receive the Rents. Owner shall hold a portion of the Rents sufficient to discharge all current sums due on the Debt for use in the payment of such sums.

Section 1.3 SECURITY AGREEMENT. This Security Instrument is both a deed passing legal title to real property and a "security agreement" within the meaning of the Uniform Commercial Code. The Property includes both real and personal property as described above and all other rights and interests, whether tangible or intangible in nature, of Owner in the Property. By executing and delivering this Security Instrument, Owner and/or Borrower hereby grant to Lender, as security for the Obligations (defined in Section 2.3), a security interest in the Personal Property to the full extent that the Personal Property may be subject to the Uniform Commercial Code.

(a) This Security Instrument is also intended to encumber and create a security interest in, and Owner hereby grants to Lender a security interest in the "Personal Property". It is hereby agreed that to the extent permitted by law, all of the foregoing property is to be deemed and held to be a part of and affixed to the Land and the Improvements. Owner shall promptly replace all of the Personal Property subject to the security title, lien or security interest of this Security Instrument when worn out or obsolete with Personal Property comparable to the worn out or obsolete Personal Property in the condition as of the date hereof and will not, without the prior written consent of Lender, remove from the Land or the Improvements any of the Personal Property subject to the security title, lien or security interest of this Security Instrument except such as is replaced by an article of equal suitability and value as above provided, owned by Owner free and clear of any security title, lien or security interest except that created by this Security Instrument and the other Loan Documents. All of the Personal Property shall be kept at the location of the Land except as otherwise required by the terms of the Loan Documents. Owner shall not use any of the Personal Property in violation of any applicable statute, ordinance or insurance policy.

(b) This Security Instrument constitutes a security agreement between Owner and/or Borrower and Lender with respect to the Personal Property in which Lender is granted a security interest hereunder, and, cumulative of all other rights and remedies of Lender hereunder, Lender shall have all of the rights and remedies of a secured party under any applicable Uniform Commercial Code. Owner and/or Borrower hereby agree to execute and deliver on demand and hereby irrevocably constitutes and appoints Lender the attorney-in-fact of Owner and/or Borrower to execute and deliver and, if appropriate, to file with the appropriate filing officer or office such security agreements, financing statements, continuation statements or other instruments as Lender may reasonably request or require in order to impose, perfect or continue the perfection of the security title, lien or security interest created hereby. Except with respect to Rents and otherwise to the extent specifically provided herein to the contrary, Lender shall have the right of possession of all cash, securities, instruments, negotiable instruments, documents, certificates and any other evidences of cash or other property or evidences of rights to cash rather than property, which are now or hereafter a part of the Property; and Owner shall promptly deliver the same to Lender, endorsed to Lender, without further notice from Lender. Owner and Borrower agree to furnish Lender with notice of any change in the name, identity, material change in corporate structure, residence, place of organization, or principal place of business or mailing address of Owner or Borrower within ten (10) days of the effective date of any such change, and failure to do so, to the extent that Lender loses its first priority security interest in the Personal Property, will be an Event of Default hereunder. Upon the occurrence of any Event of Default hereunder not cured within any applicable grace or cure period, Lender shall have the rights and remedies as prescribed in this Security Instrument, or as prescribed by general law, or as prescribed by any applicable Uniform Commercial Code, all at Lender's election. Any disposition of the Personal Property may be conducted by an employee or agent of Lender. Any person, including both Owner, Borrower and Lender, shall be eligible to purchase any part or all of the Personal Property at any such disposition. Expenses of retaking, holding, preparing for sale, selling or the like (including, without limitation, Lender's reasonable actual attorneys' fees and legal expenses) together with interest thereon at the Default Rate from the date incurred by Lender until actually paid by Borrower, shall be paid by Owner on demand and shall be secured by this Security Instrument and by all of the other Loan Documents securing all or any part of the indebtedness evidenced by the Note. After an Event of Default hereunder, Lender shall have the right to enter upon the Land and the Improvements or any real property where any of the Personal Property which is the subject of the security interest granted herein is located to take possession of, assemble and collect the same or to render it unusable, or Owner, upon demand of Lender, shall assemble such Personal Property and make it available to Lender at the Land, a place which is hereby deemed to be reasonably convenient to Lender and Owner. If notice is required by law, Lender shall give Owner and/or Borrower at least ten (10) days' prior written notice of the time and place of any public sale of such Personal Property or of the time of or after which any private sale or any other intended disposition thereof is to be made, and if such notice is sent to Owner and/or Borrower, as the same is provided for the mailing of notice herein, it is hereby deemed that such notice shall be and is reasonable notice to Owner and/or Borrower. No such notice is necessary for any such Personal Property which is perishable, threatens to decline speedily in value or is of a type customarily sold on a recognized market. Any sale made pursuant to the provisions of this Section shall be deemed to have been a public sale conducted in a commercially reasonable manner if held contemporaneously with the foreclosure sale as provided in Article 11 hereof upon giving the same notice with respect to the sale of the

Property hereunder as is required under Article 11. Furthermore, to the extent permitted by law, in conjunction with, in addition to or in substitution for the rights and remedies available to Lender pursuant to any applicable Uniform Commercial Code:

(i) In the event of a foreclosure sale, the Property may, at the option of Lender, be sold as a whole; and

(ii) It shall not be necessary that Lender take possession of the aforementioned Personal Property, or any part thereof, prior to the time that any sale pursuant to the provisions of this Section is conducted and it shall not be necessary that said Personal Property, or any part thereof, be present at the location of such sale; and

(iii) Lender may appoint or delegate any one or more persons as agent to perform any act or acts necessary or incident to any sale held by Lender, including the sending of notices and the conduct of the sale, but in the name and on behalf of Lender.

Section 1.4 PLEDGE OF MONIES HELD. [OMITTED]

Section 1.5 CONDITIONS TO GRANT. TO HAVE AND TO HOLD the above granted and described Property unto and to the only proper use and benefit of Lender, and the successors and assigns of Lender, forever, in fee simple. OWNER WARRANTS that Owner has good title to the Property, that Owner is lawfully seized and possessed of the Property and has the right to convey the Property, and that the Property is unencumbered except as may be herein expressly provided and that the Owner shall forever warrant and defend the title to the Property unto Lender against the claims of all persons whomsoever. This Security Instrument is a deed passing legal title pursuant to the laws of the State of Georgia governing deeds to secure debt, and is not a mortgage. PROVIDED, HOWEVER, if Borrower shall well and truly pay to Lender the Debt at the time and in the manner provided in the Note and this Security Instrument, shall well and truly perform the Other Obligations as set forth in this Security Instrument and shall well and truly abide by and comply with each and every covenant and condition set forth herein and in the Note, all within any applicable notice or cure periods, Lender shall cancel and surrender this Security Instrument.

ARTICLE 2 - DEBT AND OBLIGATIONS SECURED

Section 2.1 DEBT. This Security Instrument and the grants, assignments and transfers made in Article 1 are given for the purpose of securing the payment of the following, in such order of priority as Lender may determine in its sole discretion (the "Debt"):

(a) The indebtedness evidenced by that certain Note of even date herewith from Borrower for the benefit of Lender in the principal amount of TWENTY MILLION AND NO/100 DOLLARS (\$20,000,000.00) in lawful money of the United States of America (the note together with all extensions, renewals, modifications, substitutions and amendments thereof to be collectively referred to as the "Note"), with interest from the date hereof at the rate set forth in the Note, such Note having a final maturity date of SEPTEMBER 30, 2005;

(b) Interest, default interest, late charges and other sums, as provided in the Note, this Security Instrument or the Other Security Documents (defined below);

(c) The Prepayment Consideration (as defined in the Note), if any;

(d) All other moneys agreed or provided to be paid by Borrower in the Note, this Security Instrument or the Other Security Documents;

(e) All sums advanced pursuant to this Security Instrument to protect and preserve the Property and the lien and the security interest created hereby; and

(f) All sums advanced and costs and expenses incurred by Lender in connection with the Debt or any part thereof, any renewal, extension, or change of or substitution for the Debt or any part thereof, or the acquisition or perfection of the security therefor, as provided herein, whether made or incurred at the request of Borrower or Lender.

Section 2.2 OTHER OBLIGATIONS. This Security Instrument and the grants, assignments and transfers made in Article 1 are also given for the purpose of securing the performance of the following (the "Other Obligations"):

(a) All other obligations of Borrower contained herein;

(b) Each obligation of Borrower contained in the Note and in the Other Security Documents; and

(c) Each obligation of Borrower contained in any renewal, extension, amendment, modification, consolidation, change of, or substitution or replacement for, all or any part of the Note, this Security Instrument or the Other Security Documents.

Section 2.3 DEBT AND OTHER OBLIGATIONS. Borrower's obligations for the payment of the Debt and the performance of the Other Obligations shall be referred to collectively below as the "Obligations."

Section 2.4 PAYMENTS. Unless payments are made in the required amount in immediately available funds at the place where the Note is payable, remittances in payment of all or any part of the Debt shall not, regardless of any receipt or credit issued therefor, constitute payment until the required amount is actually received by Lender in funds immediately available at the place where the Note is payable (or any other place as Lender, in Lender's sole discretion, may have established by delivery of written notice thereof to Borrower) and shall be made and accepted subject to the condition that any check or draft may be handled for collection in accordance with the practice of the collecting bank or banks. Acceptance by Lender of any payment in an amount less than the amount then due shall be deemed an acceptance on account only, and the failure to pay the entire amount then due past any applicable notice or cure period shall be and continue to be an Event of Default.

ARTICLE 3 - BORROWER COVENANTS

Borrower and/or Owner covenant and agree that:

Section 3.1 PAYMENT OF DEBT. Borrower will pay the Debt at the time and in the manner provided in the Note and in this Security Instrument.

Section 3.2 INCORPORATION BY REFERENCE. All the covenants, conditions and agreements contained in (a) the Note and (b) all and any of the documents other than the Note or this Security Instrument now or hereafter executed by Borrower and/or others and by or in favor of Lender, which wholly or partially secure or guaranty payment of the Note or are otherwise executed and delivered in connection with and as a part of the Loan as evidenced by the Note (the "Other Security Documents"), are hereby made a part of this Security Instrument to the same extent and with the same force as if fully set forth herein.

Section 3.3 INSURANCE. (a) Owner shall obtain and maintain, or cause to be maintained, insurance for Owner and the Property providing at least the following coverages:

(i) Property Insurance. Insurance with respect to the Improvements and building equipment insuring against any peril now or hereafter included within the classification "All Risks of Physical Loss" in amounts at all times sufficient to prevent Lender from becoming a co-insurer within the terms of the applicable policies and under applicable law, but in any event such insurance shall be maintained in an amount which, after application of deductible, shall be equal to the full insurable value of the Improvements and building equipment, the term "full insurable value" to mean the actual replacement cost of the Improvements and building equipment (without taking into account any depreciation, and exclusive of excavations, footings and foundations, landscaping and paving) determined annually by an insurer, a recognized independent insurance broker or an independent appraiser selected and paid by Borrower and in no event less than the coverage required pursuant to the terms of any Lease;

(ii) Liability Insurance. Comprehensive general liability insurance, including bodily injury, death and property damage liability, insurance against any and all claims, including all legal liability to the extent insurable and imposed upon Lender and all court costs and attorneys' fees and expenses, arising out of or connected with the possession, use, leasing, operation, maintenance or condition of the Property having limits of \$2,000,000.00 per accident or occurrence for personal injury and \$500,000.00 per accident or occurrence for injury to property;

(iii) Workers' Compensation Insurance. Statutory workers' compensation insurance with respect to any work on or about the Property;

(iv) Business Interruption Insurance. Business interruption and/or loss of "rental income" insurance in an amount sufficient to avoid any co-insurance penalty and to provide proceeds which will cover a period of not less than one (1) year from the date of casualty or loss, the term "rental income" to mean the sum of (A) the total then ascertainable Rents

payable under the Leases and (B) the total ascertainable amount of all other amounts to be received by Borrower from third parties which are the legal obligation of the tenants, reduced to the extent such amounts would not be received because of operating expenses not incurred during a period of non-occupancy of that portion of the Property then not being occupied;

(v) Flood Insurance. If required by Subsection 5.5(j) hereof, flood insurance in an amount at least equal to the lesser of (A) the principal balance of the Note, or (B) the maximum limit of coverage available for the Property under the National Flood Insurance Act of 1968, The Flood Disaster Protection Act of 1973 or the National Flood Insurance Reform Act of 1994, as each may be amended;

(vi) Builder's Risk Insurance. At all times during which structural construction, repairs or alterations are being made with respect to the Improvements (A) owner's contingent or protective liability insurance covering claims not covered by or under the terms or provisions of the above mentioned commercial general liability insurance policy; and (B) the insurance provided for in Subsection 3.3(a)(i) written in a so-called builder's risk completed value form (1) on a non-reporting basis, (2) against all risks insured against pursuant to Subsection 3.3(a)(i), (3) including permission to occupy the Property, and (4) with an agreed amount endorsement waiving co-insurance provisions; and

(vii) Other Insurance. Such other insurance with respect to the Property against loss or damage of the kinds from time to time customarily insured against and in such amounts as are required by institutional lenders for properties comparable to the Property.

(b) All insurance provided for in Subsection 3.3(a) hereof shall be obtained under valid and enforceable policies (the "Policies" or in the singular, the "Policy"), and shall be issued by either the insurers who insure the Improvements on the date of this Security Instrument or one or more other domestic primary insurer(s) having (i) an investment grade rating or claims paying ability assigned by one or more credit rating agencies approved by Lender (a "Rating Agency") and (ii) a general policy rating of A or better and a financial class of VI or better by A.M. Best Company, Inc. (or if a rating of A.M. Best Company Inc. is no longer available, a similar rating from a similar or successor service) (each such insurer shall be referred to below as a "Qualified Insurer"). All insurers providing insurance required by this Security Instrument shall be authorized to issue insurance in the state in which the Property is located. The Policy referred to in Subsection 3.3(a)(ii) above shall name Lender as an additional insured and the Policies referred to in Subsection 3.3(a)(i), (iv), (v) and (vi), and as applicable (vii), above shall provide that all proceeds be payable to Lender as set forth in Section 3.7 hereof. The Policies referred to in Subsections 3.3(a)(i), (v) and (vi) shall also contain: (i) a standard "non-contributory mortgagee" endorsement or its equivalent relating, inter alia, to recovery by Lender notwithstanding the negligent or willful acts or omission of Lender; (ii) to the extent available at commercially reasonable rates, a waiver of subrogation endorsement as to Lender; and (iii) an endorsement providing for a deductible per loss of an amount not more than that which is customarily maintained by prudent owners of similar properties in the general vicinity of the Property, but in no event in excess of \$1,000,000. The Policy referred to in Subsection 3.3(a)(i) above shall provide coverage for contingent liability from Operation of Building Laws, Demolition Costs and Increased Cost of Construction Endorsements

together with an "Ordinance or Law Coverage" or "Enforcement" endorsement if any of the Improvements or the use of the Property shall at any time constitute legal non-conforming structures or uses. All Policies shall contain (i) a provision that such Policies shall not be canceled or terminated, nor shall they expire, without at least thirty (30) days' prior written notice to Lender in each instance; and (ii) include effective waivers by the insurer of all claims for Insurance Premiums (defined below) against any loss payees, additional insureds and named insureds (other than Owner). Certificates of insurance with respect to all renewal and replacement Policies shall be delivered to Lender not less than twenty (20) days prior to the expiration date of any of the Policies required to be maintained hereunder, which certificates shall bear notations evidencing payment of applicable premiums (the "Insurance Premiums"). Originals or certificates of such replacement Policies shall be delivered to Lender promptly after Owner's receipt thereof but in any case within thirty (30) days after the effective date thereof. If Owner fails to maintain and deliver to Lender the original Policies or certificates of insurance required by this Security Instrument, upon ten (10) days' prior notice to Owner, Lender may procure such insurance at Owner's sole cost and expense.

(c) Owner shall comply with all insurance requirements and shall not bring or keep or permit to be brought or kept any article upon any of the Property or cause or permit any condition to exist thereon which would be prohibited by an insurance requirement, or would invalidate the insurance coverage required hereunder to be maintained by Owner on or with respect to any part of the Property pursuant to this Section 3.3.

Section 3.4 PAYMENT OF TAXES, ETC. (a) Owner shall promptly pay all taxes, assessments, water rates, sewer rents, governmental impositions, and other charges, including without limitation vault charges and license fees for the use of vaults, chutes and similar areas adjoining the Land, now or hereafter levied or assessed or imposed against the Property or any part thereof (the "Taxes"), all ground rents, maintenance charges and similar charges, now or hereafter levied or assessed or imposed against the Property or any part thereof (the "Other Charges"), and all charges for utility services provided to the Property as same become due and payable. Owner will deliver to Lender, promptly upon Lender's request, evidence satisfactory to Lender that the Taxes, Other Charges and utility service charges have been so paid or are not then delinquent. Owner shall not suffer and shall promptly cause to be paid and discharged any lien or charge whatsoever which may be or become a lien or charge against the Property. Except to the extent sums sufficient to pay all Taxes and Other Charges have been deposited with Lender in accordance with the terms of this Security Instrument, Owner shall furnish to Lender paid receipts for the payment of the Taxes and Other Charges prior to the date the same shall become delinquent.

(b) After prior written notice to Lender, Owner, at its own expense, may contest by appropriate legal proceeding, promptly initiated and conducted in good faith and with due diligence, the amount or validity or application in whole or in part of any of the Taxes, provided that (i) no Event of Default has occurred and is continuing under the Note, this Security Instrument or any of the Other Security Documents, (ii) Owner is permitted to do so under the provisions of any other mortgage, deed of trust or deed to secure debt affecting the Property, (iii) such proceeding shall suspend the collection of the Taxes from Owner and from the Property or Owner shall have paid all of the Taxes under protest, (iv) such proceeding shall be permitted under and be conducted in accordance with the provisions of any other instrument to which Owner is subject and shall not constitute a default thereunder, (v) neither the Property nor any part thereof or interest therein will

be in danger of being sold, forfeited, terminated, canceled or lost, and (vi) Owner shall have paid all of the Taxes under protest, or Owner shall have furnished the security as may be required in the proceeding, or as may be reasonably requested by Lender to insure the payment of any contested Taxes, together with all interest and penalties thereon, taking into consideration the amount in the Escrow Fund (if any) available for payment of Taxes.

Section 3.5 ESCROW FUND. [OMITTED]

Section 3.6 CONDEMNATION. Owner shall promptly give Lender notice of the actual or threatened commencement of any condemnation or eminent domain proceeding and shall deliver to Lender copies of any and all papers served in connection with such proceedings. Notwithstanding any taking by any public or quasi-public authority through eminent domain or otherwise (including but not limited to any transfer made in lieu of or in anticipation of the exercise of such taking), Borrower shall continue to pay the Debt at the time and in the manner provided for its payment in the Note and in this Security Instrument and the Debt shall not be reduced until any award or payment therefor shall have been actually received and applied by Lender, after the deduction of expenses of collection, to the reduction or discharge of the Debt. Lender shall not be limited to the interest paid on the award by the condemning authority but shall be entitled to receive out of the award interest at the rate or rates provided herein or in the Note. Lender may apply any award or payment to the reduction or discharge of the Debt whether or not then due and payable. If the Property is sold, through foreclosure or otherwise, prior to the receipt by Lender of the award or payment, Lender shall have the right, whether or not a deficiency judgment on the Note (to the extent permitted in the Note or herein) shall have been sought, recovered or denied, to receive the award or payment, or a portion thereof sufficient to pay the Debt.

Section 3.7 RESTORATION AFTER CASUALTY/CONDEMNATION. In the event of a casualty or a taking by eminent domain, the following provisions shall apply in connection with the Restoration (defined below) of the Property:

(a) If the Property shall be damaged or destroyed, in whole or in part, by fire or other casualty, or if the Property or any portion thereof is taken by the power of eminent domain, Owner shall give prompt notice of such damage or taking to Lender and shall promptly commence and diligently prosecute the completion of the repair and restoration of the Property as nearly as possible to the condition the Property was in immediately prior to such fire or other casualty or taking, with such alterations as may be approved by Lender, which approval shall not be unreasonably withheld (the "Restoration").

(b) The term "Net Proceeds" for purposes of this Section 3.7 shall mean: (i) the net amount of all insurance proceeds with respect to the Property under the Policies carried pursuant to Subsections 3.3(a)(i), (iv), (v), (vi) and (vii) of this Security Instrument as a result of such damage or destruction, after deduction of Lender's reasonable costs and expenses (including, but not limited to reasonable counsel fees), if any, in collecting the same, or (ii) the net amount of all awards and payments received by Lender with respect to a taking referenced in Section 3.6 of this Security Instrument, after deduction of Lender's reasonable costs and expenses (including, but not limited to reasonable counsel fees), if any, in collecting the same, whichever the case may be. If (i) the Net Proceeds do not exceed \$1,000,000 (the "Net Proceeds Availability Threshold"); (ii) the costs of

completing the Restoration as reasonably estimated by Owner shall be less than or equal to the sum of the Net Proceeds, plus Owner's deductible; (iii) no Event of Default shall have occurred and be continuing under the Note, this Security Instrument or any of the Other Security Documents; (iv) the Property and the use thereof after the Restoration will be in compliance with, and permitted under, all applicable zoning laws, ordinances, rules and regulations (including, without limitation, all applicable Environmental Laws as defined in Section 12.1); and (v) (A) in the event that the Net Proceeds are insurance proceeds, less than twenty-five percent (25%) of the total floor area of the Improvements has been damaged or destroyed, or rendered unusable as a result of such fire or other casualty; or (B) in the event that the Net Proceeds are condemnation awards, less than twenty-five percent (25%) of the Land constituting the Property is taken, such Land that is taken is located along the perimeter or periphery of the Property, no portion of the Improvements is located in such Lands, and such taking does not materially impair access to the Property, then the Net Proceeds will be disbursed directly to Owner.

(c) If the Net Proceeds are not required to be paid directly to Owner pursuant to Section 3.7(b) above, such Net Proceeds shall, subject to the provisions of the Leases that are superior to the lien of this Security Instrument or with respect to which subordination and non-disturbance agreements binding upon Lender have been entered into and such nondisturbance applies to the deposits of Net Proceeds, be forthwith paid to Lender to be held by Lender in a segregated account to be made available to Owner for the Restoration in accordance with the provisions of this Subsection 3.7(c).

The Net Proceeds held by Lender pursuant to Subsection 3.7(c) shall be made available to Owner for payment or reimbursement of Owner's expenses in connection with the Restoration, subject to the following conditions:

(i) No Event of Default shall have occurred and be continuing under the Note, this Security Instrument or any of the Other Security Documents;

(ii) Lender shall, within a reasonable period of time prior to request for initial disbursement, be furnished with an estimate of the cost of the Restoration accompanied by an independent architect's certification as to such costs and appropriate plans and specifications for the Restoration, such plans and specifications and cost estimates to be subject to Lender's approval, not to be unreasonably withheld or delayed;

(iii) The Net Proceeds, together with any deductible amount and any cash or cash equivalent deposited by Owner with Lender, are sufficient to cover the cost of the Restoration as such costs are certified by the independent architect, and provided further that the deductible amount and the cash or cash equivalent are injected first into the Restoration before the Net Proceeds;

(iv) (A) in the event that the Net Proceeds are condemnation awards, less than 25% of the Land constituting the Property is taken; such Land that is taken is located along the perimeter or periphery of the Property; no portion of the Improvements is located in such Lands; such taking does not materially impair access to the Property; and the ratio of

the principal balance due under the Note to the fair market value of the Property just after the taking is not greater than it was just prior to the taking;

(v) Lender shall be reasonably satisfied that all scheduled payments of principal and interest under the Note will be covered out of (1) the Net Proceeds, (2) other funds of Owner, or (3) payments from Owner's Business Interruption Insurance.

(vi) The Restoration work commences in a timely manner and progresses in a timely manner through completion;

(vii) The Restoration can reasonably be completed on or before the earliest to occur of (A) the earliest date required for such completion under the terms of any Major Leases (defined below) and (B) such time as may be required under applicable zoning law, ordinance, rule or regulation in order to repair and restore the Property to as nearly as possible the condition it was in immediately prior to such fire or other casualty or to such taking, as applicable; and

(viii) The Property and the use thereof after the Restoration will be in compliance with, and permitted under, all applicable zoning laws, ordinances, rules and regulations (including, without limitation, all applicable Environmental Laws (defined in Section 12.1)).

(d) The Net Proceeds held by Lender until disbursed in accordance with the provisions of this Section 3.7 shall constitute additional security for the Obligations. The Net Proceeds other than the Net Proceeds paid under the Policy described in Subsection 3.3(a)(iv) shall be disbursed by Lender to, or as directed by, Owner, in an amount equal to the costs actually incurred from time to time for work in place as part of the Restoration less customary retainage from time to time during the course of the Restoration, not more frequently than once per month, upon receipt of evidence satisfactory to Lender that (A) all materials installed and work and labor performed (except to the extent that they are to be paid for out of the requested disbursement) in connection with the Restoration have been paid for in full, and (B) there exist no notices of pendency, stop orders, mechanic's or materialman's liens or notices of intention to file same, or any other liens or encumbrances of any nature whatsoever on the Property arising out of the Restoration which have not either been fully bonded and discharged of record or in the alternative fully insured to the satisfaction of Lender by the title company insuring the lien of this Security Instrument. The Net Proceeds paid under the Policy described in Subsection 3.3(a)(iv) shall be disbursed by Lender to pay for debt service under the loan evidenced by the Note, to pay other expenses incurred by Owner in connection with the ownership and operation of the Property, and the remainder thereof, to, or as directed by, Owner. Final payment shall be made after submission to Lender of all licenses, permits, certificates of occupancy and other required approvals of governmental authorization having jurisdiction and casualty Consultant's certification that the Restoration has been fully completed.

(e) Lender shall have the use of the plans and specifications and all permits, licenses and approvals required or obtained in connection with the Restoration. The identity of the contractors, subcontractors and materialmen engaged in the Restoration, as well as the contracts under which they have been engaged, shall be subject to prior review and acceptance by Lender and

an independent consulting engineer selected by Lender (the "Casualty Consultant"), such acceptance not to be unreasonably withheld or delayed. All costs and expenses reasonably incurred by Lender in connection with making the Net Proceeds available for the Restoration including, without limitation, reasonable counsel fees and disbursements and the Casualty Consultant's fees, shall be paid by Owner.

(f) If at any time the Net Proceeds or the undisbursed balance thereof, together with Owner's deductible, shall not, in the reasonable opinion of Lender, be sufficient to pay in full the balance of the costs which are estimated by the Casualty Consultant to be incurred in connection with the completion of the Restoration, Owner shall deposit the deficiency (the "Net Proceeds Deficiency") with Lender or otherwise provide Lender reasonable security before any further disbursement of the Net Proceeds shall be made. The Net Proceeds Deficiency deposited with Lender shall be held by Lender and shall be disbursed for costs actually incurred in connection with the Restoration on the same conditions applicable to the disbursement of the Net Proceeds, and until so disbursed pursuant to this Section 3.7 shall constitute additional security for the Obligations.

(g) Except upon the occurrence and continuance of an Event of Default, Owner shall settle any insurance claims with respect to the Net Proceeds which in the aggregate are less than the Net Proceeds Availability Threshold. Lender shall have the right to participate in and reasonably approve any settlement for insurance claims with respect to the Net Proceeds which in the aggregate are greater than the Net Proceeds Availability Threshold. If an Event of Default shall have occurred and be continuing, Owner hereby irrevocably empowers Lender, in the name of Owner as its true and lawful attorney-in-fact, to file and prosecute such claim and to collect and to make receipt for any such payment. If the Net Proceeds are received by Owner, such Net Proceeds shall, until the completion of the related work, be held in trust for Lender and shall be segregated from other funds of Owner to be used to pay for the cost of the Restoration in accordance with the terms hereof.

(h) The excess, if any, of the Net Proceeds and the remaining balance, if any, of the Net Proceeds Deficiency deposited with Lender after (i) the Casualty Consultant certifies to Lender that the Restoration has been completed in accordance with the provisions of this Section 3.7, and (ii) the receipt by Lender of evidence satisfactory to Lender that all costs incurred in connection with the Restoration have been paid in full and all required permits, licenses, certificates of occupancy and other required approvals of governmental authorities having jurisdiction have been issued, shall be remitted by Lender to Owner, provided no Event of Default shall have occurred and shall be continuing under the Note, this Security Instrument or any of the Other Security Documents.

(i) All Net Proceeds not required (i) to be made available for the Restoration or (ii) to be returned to Owner as excess Net Proceeds pursuant to Subsection 3.7(h) shall be retained and applied by Lender toward the payment of the Debt whether or not then due and payable in such order, priority and proportions as Lender in its discretion shall deem proper or, at the discretion of Lender, the same shall be paid, either in whole or in part, to Owner. If Lender shall receive and retain Net Proceeds, the lien of this Security Instrument shall be reduced only by the amount received and retained by Lender and actually applied by Lender in reduction of the Debt.

Section 3.8 LEASES AND RENTS. (a) Owner may enter into a proposed Lease (including the renewal or extension of an existing Lease ("a Renewal Lease")) without the prior written consent of Lender, provided such proposed Lease or Renewal Lease (i) provides for rental rates and terms comparable to existing local market rates and terms (taking into account the type and quality of the tenant) as of the date such Lease is executed by Owner (unless, in the case of a Renewal Lease, the rent payable during such renewal, or a formula or other method to compute such rent, is provided for in the original Lease), (ii) is an arms-length transaction with a bona fide, independent third party tenant, unless the lease is with an entity controlled by the Parent, (iii) does not have a materially adverse effect on the value of the Property taken as a whole, (iv) is subject and subordinate to the Security Instrument and the lessee thereunder agrees to attorn to Lender, and (v) is written on the standard form of lease approved by Lender: All proposed Leases which do not satisfy the requirements set forth in this Subsection 3.8(a) shall be subject to the prior approval of Lender and its counsel, at Owner's expense, which approval shall not be unreasonably withheld. Owner shall promptly deliver to Lender copies of all Leases which are entered into pursuant to this Subsection together with Owner's certification that it has satisfied all of the conditions of this Subsection.

(b) Owner (i) shall observe and perform all the obligations imposed upon the lessor under the Leases and shall not do or permit to be done anything to impair the value of any of the Leases as security for the Debt; (ii) upon request, shall promptly send copies to Lender of all notices of default which Owner shall send or receive thereunder; (iii) shall enforce all of the material terms, covenants and conditions contained in the Leases upon the part of the tenant thereunder to be observed or performed, (iv) shall not collect any of the Rents more than one (1) month in advance (except security deposits and estimated operating expenses shall not be deemed Rents collected in advance); (v) shall not execute any other assignment of the lessor's interest in any of the Leases or the Rents; and (vi) shall not consent to any assignment of or subletting under any Leases not in accordance with their terms, without the prior written consent of Lender.

(c) Owner may, without the consent of Lender, amend, modify or waive the provisions of any Lease or terminate, reduce rents under, accept a surrender of space under, or shorten the term of, any Lease (including any guaranty, letter of credit or other credit support with respect thereto) provided that such action (taking into account, in the case of a termination, reduction in rent, surrender of space or shortening of term, the planned alternative use of the affected space) does not have a materially adverse effect on the value of the Property taken as a whole, and provided that such Lease, as amended, modified or waived, is otherwise in compliance with the requirements of this Security Instrument and any subordinate agreement binding upon Lender with respect to such Lease. A termination of a Lease with a tenant who is in default beyond applicable notice and grace periods shall not be considered an action which has a materially adverse effect on the value of the Property taken as a whole. Any amendment, modification, waiver, termination, rent reduction, space surrender or term shortening which does not satisfy the requirements set forth in this Subsection shall be subject to the prior approval of Lender and its counsel, at Owner's expense. Owner shall promptly deliver to Lender copies of amendments, modifications and waivers which are entered into pursuant to this Subsection together with Owner's certification that it has satisfied all of the conditions of this Subsection.

Section 3.9 MAINTENANCE AND USE OF PROPERTY. Owner shall cause the Property to be maintained in a good and safe condition and repair. The Improvements and the Personal Property shall not be removed, demolished or materially altered (except for normal replacement of the Personal Property) without the consent of Lender, which consent shall not be unreasonably withheld. Owner shall promptly repair, replace or rebuild any part of the Property which may be destroyed by any casualty, or become damaged, worn or dilapidated or which may be affected by any proceeding of the character referred to in Section 3.6 hereof and shall complete and pay for any structure at any time in the process of construction or repair on the Land. Owner shall not initiate, join in, acquiesce in, or consent to any change in any private restrictive covenant, zoning law or other public or private restriction, limiting or defining the uses which may be made of the Property or any part thereof. If under applicable zoning provisions the use of all or any portion of the Property is or shall become a nonconforming use, Owner will not cause or permit the nonconforming use to be discontinued or the nonconforming Improvement to be abandoned without the express written consent of Lender.

Section 3.10 WASTE. Owner shall not commit or suffer any waste of the Property or make any change in the use of the Property which will in any way materially increase the risk of fire or other hazard arising out of the operation of the Property, or take any action that might invalidate or give cause for cancellation of any Policy, or do or permit to be done thereon anything that may materially impair the value of the Property or the security of this Security Instrument. Owner will not, without the prior written consent of Lender, permit any drilling or exploration for or extraction, removal, or production of any minerals from the surface or the subsurface of the Land, regardless of the depth thereof or the method of mining or extraction thereof.

Section 3.11 COMPLIANCE WITH LAWS. (a) Owner shall promptly comply with all existing and future federal, state and local laws, orders, ordinances, governmental rules and regulations or court orders affecting the Property, or the use thereof ("Applicable Laws").

(b) Owner shall from time to time, upon Lender's reasonable request, provide Lender with evidence reasonably satisfactory to Lender that the Property complies in all material respects with all Applicable Laws or is exempt from compliance with Applicable Laws.

(c) Notwithstanding any provisions set forth herein or in any document regarding Lender's approval of alterations of the Property, Owner shall not alter the Property in any manner which would materially increase Owner's responsibilities for compliance with Applicable Laws without the prior written approval of Lender, which consent shall not be unreasonably withheld. Lender's approval of the plans, specifications, or working drawings for alterations of the Property shall create no responsibility or liability on behalf of Lender for their completeness, design, sufficiency or their compliance with Applicable Laws. The foregoing shall apply to tenant improvements constructed by Owner or by any of its tenants. Lender may condition any such approval upon receipt of a certificate of compliance with Applicable Laws from an independent architect, engineer, or other person acceptable to Lender.

(d) Owner shall give prompt notice to Lender of the receipt by Owner of any notice related to a violation of any Applicable Laws and of the commencement of any proceedings or investigations which relate to compliance with Applicable Laws.

(e) After prior written notice to Lender, Owner, at its own expense, may contest by appropriate legal proceeding, promptly initiated and conducted in good faith and with due diligence, the Applicable Laws affecting the Property, provided that (i) no Event of Default has occurred and is continuing under the Note, this Security Instrument or any of the Other Security Documents; (ii) Owner is permitted to do so under the provisions of any other mortgage, deed of trust or deed to secure debt affecting the Property; (iii) such proceeding shall be permitted under and be conducted in accordance with the provisions of any other instrument to which Owner or the Property is subject and shall not constitute a default thereunder; (iv) neither the Property, any part thereof or interest therein, any of the tenants or occupants thereof, nor Owner shall be affected in any material adverse way as a result of such proceeding; (v) noncompliance with the Applicable Laws shall not impose civil or criminal liability on Owner or Lender; and (vi) Owner shall have furnished to Lender all other items reasonably requested by Lender.

Section 3.12 BOOKS AND RECORDS. (a) Acuity Brands, Inc. ("Parent") shall keep adequate books and records of account in accordance with generally accepted accounting principles ("GAAP"), or in accordance with other methods acceptable to Lender in its sole discretion, consistently applied and furnish to Lender:

(i) If there exists any Lease, an annual certified rent roll signed and dated by Owner, detailing the names of all tenants of the Improvements, the portion of Improvements occupied by each tenant, the base rent and any other charges payable under each Lease and the term of each Lease, including the expiration date, the extent to which any tenant is in default under any Lease, and any other information as is reasonably required by Lender, within thirty (30) days after the end of each calendar year; and

(ii) Those items as specifically set forth in Section 6.1 of that certain 3-Year Revolving Credit Agreement dated as of April 8, 2002 among Acuity Brands, Inc., the Subsidiary Borrowers and Bank One, NA, as Administrative Agent, the specific provisions of which are herein adopted by reference thereto as if set forth herein in their entirety.

(b) Lender acknowledges that to the extent those items required to be produced in (ii) above have already been provided to Lender pursuant to the requirements of the above-referenced 3-Year Revolving Credit Agreement, such items do not have to be provided to Lender again in order to meet the requirements of (ii) above.

Section 3.13 PAYMENT FOR LABOR AND MATERIALS. Owner will promptly pay when due all bills and costs for labor, materials, and specifically fabricated materials incurred in connection with the Property and never permit to exist in respect of the Property or any part thereof any lien or security interest, even though inferior to the liens and the security interests hereof, and in any event never permit to be created or exist in respect of the Property or any part thereof any other or additional lien or security interest other than the liens or security interests hereof, except for the Permitted Exceptions (defined below).

Section 3.14 PERFORMANCE OF OTHER AGREEMENTS. Owner shall observe and perform in all material respects each and every term to be observed or performed by Owner

pursuant to the terms of any material agreement or recorded instrument affecting or pertaining to the Property, or given by Owner to Lender for the purpose of further securing an obligation secured hereby and any amendments, modifications or changes thereto.

Section 3.15 CHANGE OF NAME, IDENTITY OR STRUCTURE. Except as may be permitted under Article 8 hereof, and except for changes that would not have a material adverse effect on Borrower or Lender's interest in the Property, none of the Borrowers will be allowed to change its name or identity or, if not an individual, its corporate, partnership or other structure, its place of organization or its ownership without notifying the Lender of such change in writing within ten (10) days of the effective date of such change and, in the case of a change in Borrower's structure or ownership, without first obtaining the prior written consent of the Lender.

Section 3.16 EXISTENCE. Borrower will continuously maintain (a) its existence and shall not dissolve or permit its dissolution, and (b) its rights to do business in the state where the Property is located.

ARTICLE 4 - SPECIAL COVENANTS

Borrower covenants and agrees as follows:

Section 4.1 LEVERAGE RATIO. Borrower shall not permit the Leverage Ratio, which is defined as Indebtedness For Borrowed Money of Parent and its consolidated Subsidiaries to EBITDA, to be greater than:

- (a) 3.50 to 1.00 as of each of November 30, 2002 and February 28, 2003;
- (b) 3.25 to 1.00 as of May 31, 2003; and
- (c) 3.00 to 1.00 as of the end of each fiscal quarter thereafter.

The Leverage Ratio shall be calculated as of the last day of each fiscal quarter based upon (i) Indebtedness For Borrowed Money as of the last day of each such fiscal quarter, and (ii) EBITDA, the actual amount for the four-quarter period ending on such day.

Section 4.2 INTEREST EXPENSE COVERAGE RATIO. Borrower shall maintain an Interest Expense Coverage Ratio which is defined as EBIT to Interest Expense for the applicable period, of at least 2.50 to 1.00. The Interest Expense Coverage Ratio shall be calculated as of the last day of each fiscal quarter for the actual amount of EBIT and Interest Expense for the four-quarter period ending on such day.

Section 4.3 DEFINITIONS. For purposes of this Article, the following terms shall have the following definitions:

"Indebtedness For Borrowed Money" of a Person means, without duplication, (a) the obligations of such Person (i) for borrowed money or which has been incurred in connection with the acquisition of property or assets (other than current accounts payable arising in the ordinary

course of such Person's business payable on terms customary in the trade), (ii) under or with respect to notes payable and drafts accepted which represent extensions of credit (whether or not representing obligations for borrowed money) to such Person, (iii) constituting reimbursement obligations with respect to letters of credit issued for the account of such Person, or (iv) for the deferred purchase price of property or services (other than current accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (b) the Indebtedness For Borrowed Money of others, whether or not assumed, secured by Liens on property of such Person or payable out of the proceeds of, or production from, property or assets now or hereafter owned or acquired by such Person, (c) the capitalized Lease Obligations of such Person, (d) the obligations of such Person under guaranties by such Person of any Indebtedness For Borrowed Money (other than obligations for borrowed money incurred to finance the purchase of property leased to such Person pursuant to a Capitalized Lease of such Person) of any other Person, (e) all Receivable Facility Attributed Indebtedness of such Person, (f) all Off-Balance Sheet Liabilities of such Person, and (g) all Disqualified Stock.

"EBIT" means, for any period for Parent and its consolidated subsidiaries, the sum of the amounts for such period, without duplication, calculated in each case in accordance with generally accepted accounting principles applied in a manner consistent with that used in preparing the Borrower's financial statements, of (i) Net Income, plus (ii) Interest Expense to the extent deducted in computing Net Income, plus (iii) charges against income for foreign, federal, state and local taxes to the extent deducted in computing Net Income, plus (iv) any other non-recurring non-cash charges to the extent deducted in computing Net Income, minus (v) any non-recurring non-cash credits to the extent added in computing Net Income.

"EBITDA" means, for any period for the Parent and its consolidated subsidiaries, the sum of the amounts for such period, without duplication, calculated in each case in accordance with generally accepted accounting principles applied in a manner consistent with that used in preparing the Borrower's financial statements, of (i) EBIT, plus (ii) depreciation expense to the extent deducted in computing Net Income, plus (iii) amortization expense, including, without limitation, amortization of goodwill and other intangible assets to the extent deducted in computing Net Income.

"Net Income" means, for any period for any group of Persons, the net earnings (or loss) after taxes of such group of Persons on a consolidated basis for such period taken as a single accounting period determined in conformity with generally accepted accounting principles applied in a manner consistent with that used in preparing the Borrower's financial statements.

"Interest Expense" means, for any period for any group of Persons, the total gross interest expense of such group of Persons, whether paid or accrued, including, without duplication, the interest component of Capitalized Leases, commitment and letter of credit fees, the discount or implied interest component of Off-Balance Sheet Liabilities, capitalized interest expense, pay-in-kind interest expense, amortization of debt discount and net payments (if any) pursuant to Financial Contracts relating to interest rate protection, all as determined on a consolidated basis in conformity with generally accepted accounting principles applied in a manner consistent with that used in preparing the Borrower's financial statements.

ARTICLE 5 - REPRESENTATIONS AND WARRANTIES

Owner and/or Borrower represent and warrant to Lender that:

Section 5.1 WARRANTY OF TITLE. Owner has good title to the Property and has the right to mortgage, grant, bargain, sell, pledge, assign, warrant, transfer and convey the same and that Owner possesses an unencumbered fee simple absolute estate in the Land and the Improvements and that it owns the Property free and clear of all liens, encumbrances and charges whatsoever except for those exceptions shown in the title insurance policy insuring the lien of this Security Instrument (the "Permitted Exceptions"). Owner shall forever warrant, defend and preserve the title and the validity and priority of the lien of this Security Instrument and shall forever warrant and defend the same to Lender against the claims of all persons whomsoever.

Section 5.2 LEGAL STATUS AND AUTHORITY. Owner (a) is duly organized, validly existing and in good standing under the laws of its state of organization or incorporation; (b) is duly qualified to transact business and is in good standing in the state where the Property is located; and (c) has all necessary approvals, governmental and otherwise, and full power and authority to own, operate and lease the Property. Owner (and the undersigned representative of Owner, if any) has full power, authority and legal right to execute this Security Instrument, and to mortgage, grant, bargain, sell, pledge, assign, warrant, transfer and convey the Property pursuant to the terms hereof and to keep and observe all of the terms of this Security Instrument on Owner's part to be performed.

Section 5.3 VALIDITY OF DOCUMENTS. (a) The execution, delivery and performance of the Note, this Security Instrument and the Other Security Documents and the borrowing evidenced by the Note (i) are within the power and authority of Borrower; (ii) have been authorized by all requisite organizational action; (iii) have received all necessary approvals and consents, corporate, governmental or otherwise; (iv) will not violate, conflict with, result in a breach of or constitute (with notice or lapse of time, or both) a material default under any provision of law, any order or judgment of any court or governmental authority, the articles of incorporation, by-laws, partnership or trust agreement, articles of organization, operating agreement, or other governing instrument of Borrower, or any indenture, agreement or other instrument to which Borrower is a party or by which it or any of its assets or the Property is or may be bound or affected; (v) will not result in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of its assets, except the lien and security interest created hereby; and (vi) will not require any authorization or license from, or any filing with, any governmental or other body (except for the recordation of this instrument in appropriate land records in the State where the Property is located and except for Uniform Commercial Code filings relating to the security interest created hereby); and (b) to the best knowledge of Borrower, the Note, this Security Instrument and the Other Security Documents constitute the legal, valid and binding obligations of Borrower.

Section 5.4 LITIGATION. There is no action, suit or proceeding, judicial, administrative or otherwise (including any condemnation or similar proceeding), pending or, to the best of Borrower's knowledge, threatened or contemplated against Owner and/or Borrower, or against or affecting the Property that has not been publicly disclosed or otherwise disclosed to

Lender by Borrower in writing, and has a material adverse affect on the Property or Borrower's ability to perform its obligations under the Note, this Security Instrument or the Other Security Documents.

Section 5.5 STATUS OF PROPERTY. (a) Owner has obtained (or will obtain) all necessary certificates, licenses and other approvals, governmental and otherwise, necessary for the operation of the Property and the conduct of its business and all required zoning, building code, land use, environmental and other similar permits or approvals, all of which are in full force and effect as of the date hereof and not subject to revocation, suspension, forfeiture or modification.

(b) The Property and the present and contemplated use and occupancy thereof are in full compliance in all material respects with all applicable zoning ordinances, building codes, land use laws, Environmental Laws and other similar laws.

(c) The Property is served by all utilities required for the current or contemplated use thereof. All utility service is provided by public utilities and the Property has accepted or is equipped to accept such utility service.

(d) All public roads and streets necessary for service of and access to the Property for the current or contemplated use thereof have been completed, are serviceable and all-weather and are physically and legally open for use by the public.

(e) The Property is served by public water and sewer systems.

(f) The Property is free from damage caused by fire or other casualty.

(g) All costs and expenses of any and all labor, materials, supplies and equipment used in the construction of the Improvements have been paid in full or are currently not past due.

(h) Owner and/or Borrower have paid in full for, and is the owner of the Personal Property, free and clear of any and all security interests, liens or encumbrances, except the lien and security interest created hereby.

(i) All liquid and solid waste disposal, septic and sewer systems located on the Property are in a good and safe condition and repair and in compliance with all Applicable Laws.

(j) No portion of the Improvements is located in an area identified by the Secretary of Housing and Urban Development or any successor thereto as an area having special flood hazards pursuant to the Flood Insurance Acts or, if any portion of the Improvements is located within such area, Owner has obtained and will maintain the insurance prescribed in Section 3.3 hereof.

(k) All the Improvements lie within the boundaries of the Property.

Section 5.6 NO FOREIGN PERSON. Owner is not a "foreign person" within the meaning of Section 1445(f)(3) of the Internal Revenue Code of 1986, as amended and the related Treasury Department regulations.

Section 5.7 SEPARATE TAX LOT. The Property is assessed for real estate tax purposes as one or more wholly independent tax lot or lots, separate from any adjoining land or improvements not constituting a part of such lot or lots, and no other land or improvements is assessed and taxed together with the Property or any portion thereof.

Section 5.8 LEASES. [INTENTIONALLY OMITTED]

Section 5.9 FINANCIAL CONDITION. (a) (i) Borrower is solvent, and no bankruptcy, reorganization, insolvency or similar proceeding under any state or federal law with respect to Borrower has been initiated, and (ii) Owner has received reasonably equivalent value for the granting of this Security Instrument.

(b) No petition in bankruptcy has ever been filed by or against Borrower or any related entity in the last seven (7) years, and neither Borrower nor any related entity, in the last seven (7) years has ever made any assignment for the benefit of creditors or taken advantage of any insolvency act or any act for the benefit of debtors.

Section 5.10 BUSINESS PURPOSES. The loan evidenced by the Note secured by the Security Instrument and the Other Security Documents (the "Loan") is solely for the business purpose of Borrower, and is not for personal, family, household, or agricultural purposes.

Section 5.11 TAXES. Borrower has filed all federal, state, county, municipal, and city income and other tax returns required to have been filed by them and have paid all taxes and related liabilities which have become due pursuant to such returns or pursuant to any assessments received by them except those which may have been contested under appropriate proceedings. Borrower knows of no basis for any additional assessment in respect of any such taxes and related liabilities for prior years.

Section 5.12 MAILING ADDRESS. Owner's and Borrower's mailing address, as set forth in the opening paragraph hereof or as changed in accordance with the provisions hereof, is true and correct.

Section 5.13 NO CHANGE IN FACTS OR CIRCUMSTANCES. All information in the application for the Loan submitted to Lender (the "Loan Application") and in all financial statements, rent rolls, reports, certificates and other documents submitted in connection with the Loan Application or in satisfaction of the terms thereof, are accurate, complete and correct in all material respects. There has been no material adverse change in any condition, fact, circumstance or event that would make any such information inaccurate, incomplete or otherwise misleading.

Section 5.14 DISCLOSURE. Borrower has disclosed to Lender all material facts and has not failed to disclose any material fact that could cause any representation or warranty made herein to be materially misleading.

Section 5.15 THIRD PARTY REPRESENTATIONS. Each of the representations and the warranties made by each Borrower herein or in any Other Security Document(s) is true and correct in all material respects.

Section 5.16 ILLEGAL ACTIVITY. No portion of the Property has been or will be purchased, improved, equipped or furnished with proceeds of any illegal activity and to the best of Owner's knowledge, there are no illegal activities or activities relating to controlled substance at the Property.

ARTICLE 6 - OBLIGATIONS AND RELIANCES

Section 6.1 RELATIONSHIP OF OWNER, BORROWER AND LENDER. The relationship between Owner, Borrower and Lender is solely that of owner, debtor and creditor, and Lender has no fiduciary or other special relationship with Owner and Borrower, and no term or condition of any of the Note, this Security Instrument and the Other Security Documents shall be construed so as to deem the relationship between Owner, Borrower and Lender to be other than that of owner, debtor and creditor.

Section 6.2 NO RELIANCE ON LENDER. The members, general partners, principals and (if Owner is a trust) beneficial owners of Owner are experienced in the ownership and operation of properties similar to the Property, and Owner and Lender are relying solely upon such expertise and business plan in connection with the ownership and operation of the Property. Owner is not relying on Lender's expertise, business acumen or advice in connection with the Property.

Section 6.3 NO LENDER OBLIGATIONS. Notwithstanding the provisions of Subsections 1.1(f) and (l) or Section 1.2, Lender is not undertaking the performance of (i) any obligations under the Leases; or (ii) any obligations with respect to such agreements, contracts, certificates, instruments, franchises, permits, trademarks, licenses and other documents. By accepting or approving anything required to be observed, performed or fulfilled or to be given to Lender pursuant to this Security Instrument, the Note or the Other Security Documents, including without limitation, any officer's certificate, balance sheet, statement of profit and loss or other financial statement, survey, appraisal, or insurance policy, Lender shall not be deemed to have warranted, consented to, or affirmed the sufficiency, the legality or effectiveness of same, and such acceptance or approval thereof shall not constitute any warranty or affirmation with respect thereto by Lender.

Section 6.4 RELIANCE. Owner and/or Borrower recognize and acknowledge that in accepting the Note, this Security Instrument and the Other Security Documents, Lender is expressly and primarily relying on the truth and accuracy of the warranties and representations set forth in Article 5 and Article 12 without any obligation to investigate the Property and notwithstanding any investigation of the Property by Lender; that such reliance existed on the part of Lender prior to the date hereof; that the warranties and representations are a material inducement to Lender in accepting the Note, this Security Instrument and the Other Security Documents; and that Lender would not be willing to make the Loan and accept this Security Instrument in the absence of the warranties and representations as set forth in Article 5 and Article 12.

ARTICLE 7 - FURTHER ASSURANCES

Section 7.1 RECORDING OF SECURITY INSTRUMENT, ETC. Owner forthwith upon the execution and delivery of this Security Instrument and thereafter, from time to time, will cause this Security Instrument and any of the Other Security Documents creating a lien or security interest or evidencing the lien hereof upon the Property and each instrument of further assurance to be filed, registered or recorded in such manner and in such places as may be required by any present or future law in order to publish notice of and fully to protect and perfect the lien or security interest hereof upon, and the interest of Lender in, the Property. Owner will pay all taxes, filing, registration or recording fees, and all expenses incident to the preparation, execution, acknowledgment and/or recording of the Note, this Security Instrument, the Other Security Documents, any note or mortgage supplemental hereto, any security instrument with respect to the Property and any instrument of further assurance, and any modification or amendment of the foregoing documents, and all federal, state, county and municipal taxes, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of this Security Instrument (other than taxes on the income of Lender), any mortgage supplemental hereto, any security instrument with respect to the Property or any instrument of further assurance, and any modification or amendment of the foregoing documents, except where prohibited by law so to do.

Section 7.2 FURTHER ACTS, ETC. Owner will, at the cost of Owner, and without expense to Lender, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, mortgages, assignments, notices of assignments, transfers and assurances as Lender shall, from time to time, reasonably require, for the better assuring, conveying, assigning, transferring, and confirming unto Lender the property and rights hereby mortgaged, granted, bargained, sold, conveyed, confirmed, pledged, assigned, warranted and transferred or intended now or hereafter so to be, or which Owner may be or may hereafter become bound to convey or assign to Lender, or for carrying out the intention or facilitating the performance of the terms of this Security Instrument or for filing, registering or recording this Security Instrument, or for complying with all Applicable Laws. Owner and/or Borrower, on demand, will execute and deliver and hereby authorizes Lender, following ten (10) days' notice to Owner and/or Borrower to execute in the name of Owner and/or Borrower or without the signature of Owner and/or Borrower to the extent Lender may lawfully do so, one or more financing statements, chattel mortgages or other instruments, to evidence more effectively the security interest of Lender in the Property. Owner grants to Lender an irrevocable power of attorney coupled with an interest for the purpose of exercising and perfecting any and all rights and remedies available to Lender pursuant to this Section 7.2. Lender shall provide copies of any such filings to Borrower within ten (10) days thereafter.

Section 7.3 CHANGES IN TAX, DEBT CREDIT AND DOCUMENTARY STAMP LAWS. (a) If any law is enacted or adopted or amended after the date of this Security Instrument which deducts the Debt from the value of the Property for the purpose of taxation or which imposes a tax, either directly or indirectly, on the Debt or Lender's interest in the Property, Owner will pay the tax, with interest and penalties thereon, if any. If Lender is advised by counsel chosen by it that the payment of tax by Owner would be unlawful or taxable to Lender or unenforceable or provide the basis for a defense of usury, then Lender and Borrower agrees to try and modify the terms of the Note in such a manner as to accommodate the tax that Lender is required to pay, and if such a

modification between Lender and Borrower cannot be achieved, then Lender shall have the option, exercisable by written notice of not less than ninety (90) days, to declare the Debt immediately due and payable. In the event Lender so elects to declare the Debt immediately due and payable, no Prepayment Consideration shall be due.

(b) Owner will not claim or demand or be entitled to any credit or credits on account of the Debt for any part of the Taxes or Other Charges assessed against the Property, or any part thereof, and no deduction shall otherwise be made or claimed from the assessed value of the Property, or any part thereof, for real estate tax purposes by reason of this Security Instrument or the Debt. If such claim, credit or deduction shall be required by law, Lender shall have the option, exercisable by written notice of not less than ninety (90) days, to declare the Debt immediately due and payable. In the event Lender so elects to declare the Debt immediately due and payable, no Prepayment Consideration shall be due.

(c) If at any time the United States of America, any State thereof or any subdivision of any such State shall require revenue or other stamps to be affixed to the Note, this Security Instrument, or any of the Other Security Documents or impose any other tax or charge on the same, Owner will pay for the same, with interest and penalties thereon, if any.

Section 7.4 ESTOPPEL CERTIFICATES. (a) After request by Lender, Borrower, within ten (10) business days, shall furnish Lender or any proposed assignee with a statement, duly acknowledged and certified, setting forth (i) the original principal amount of the Note, (ii) the unpaid principal amount of the Note, (iii) the rate of interest of the Note, (iv) the terms of payment and maturity date of the Note, (v) the date installments of interest and/or principal were last paid, (v) that, except as provided in such statement, there are no defaults or events which with the passage of time or the giving of notice or both, would constitute an event of default under the Note or the Security Instrument, (vi) that the Note and this Security Instrument are valid, legal and binding obligations and have not been modified or if modified, giving particulars of such modification, (vii) whether any offsets or defenses exist against the obligations secured hereby and, if any are alleged to exist, a detailed description thereof, (viii) that all Leases are in full force and effect and (provided the Property is not a residential multifamily property) have not been modified (or if modified, setting forth all modifications), (ix) the date to which the Rents thereunder have been paid pursuant to the Leases, (x) whether or not, to the best knowledge of Borrower or Owner, any of the lessees under the Leases are in default under the Leases, and, if any of the lessees are in default, setting forth the specific nature of all such defaults, (xi) the amount of security deposits held by Owner under each Lease and that such amounts are consistent with the amounts required under each Lease, and (xii) as to any other matters reasonably requested by Lender and reasonably related to the Leases, the obligations secured hereby, the Property or this Security Instrument.

(b) If there are leases in existence with respect to the Property, Owner shall use its best efforts to deliver to Lender, promptly upon request, duly executed estoppel certificates from any one or more lessees as required by Lender attesting to such facts regarding the Lease as Lender may require, including but not limited to attestations that each Lease covered thereby is in full force and effect with no defaults thereunder on the part of any party, that none of the Rents have been paid more than one month in advance, and that the lessee claims no defense or offset against the full and timely performance of its obligations under the Lease.

(c) Upon any transfer or proposed transfer contemplated by Section 18.1 hereof, at Lender's request, Owner and Borrower shall provide an estoppel certificate to the Investor (defined in Section 18.1) or any prospective Investor in such form, substance and detail as Lender, such Investor or prospective Investor may reasonably require.

Section 7.5 FLOOD INSURANCE. After Lender's request, Owner shall deliver evidence satisfactory to Lender that no portion of the Improvements is situated in a federally designated "special flood hazard area" or if it is, that Owner has obtained insurance meeting the requirements of Section 3.3(a)(vi).

Section 7.6 SPLITTING OF SECURITY INSTRUMENT. [INTENTIONALLY OMITTED]

Section 7.7 REPLACEMENT DOCUMENTS. Upon receipt of an affidavit of an officer of Lender as to the loss, theft, destruction or mutilation of the Note or any Other Security Document which is not of public record, and, in the case of any such mutilation, upon surrender and cancellation of such Note or Other Security Document, Borrower and/or Owner will issue, in lieu thereof, a replacement Note or Other Security Document, dated the date of such lost, stolen, destroyed or mutilated Note or Other Security Document in the same principal amount thereof and otherwise of like tenor.

ARTICLE 8 - DUE ON SALE/ENCUMBRANCE

Section 8.1 NO SALE/ENCUMBRANCE. Owner agrees that Owner shall not, without the prior written consent of Lender, which consent shall be at Lender's sole discretion, sell, convey, mortgage, grant, bargain, encumber, pledge, assign, or otherwise transfer the Property or any part thereof or permit the Property or any part thereof to be sold, conveyed, mortgaged, granted, bargained, encumbered, pledged, assigned, or otherwise transferred. Notwithstanding the above, Lender shall not unreasonably withhold its consent to a sale, transfer or conveyance of the Property to an entity controlled by Parent, and, in such instance, Lender agrees not to require a transfer fee or reserve the right to modify the term of the Note. However, in such instance, Lender shall still be entitled to the payment of its reasonable expenses incurred in connection with such transfer

Section 8.2 SALE/ENCUMBRANCE DEFINED. A sale, conveyance, mortgage, grant, bargain, encumbrance, pledge, assignment, or transfer of the Property within the meaning of this Article 8 shall be deemed to include, but not limited to, (a) an installment sales agreement wherein Owner agrees to sell the Property or any part thereof for a price to be paid in installments; (b) an agreement by Owner leasing all or a substantial part of the Property for other than actual occupancy by a space tenant thereunder or a sale, assignment or other transfer of, or the grant of a security interest in, Owner's right, title and interest in and to any Leases or any Rents; (c) a change in the ownership of Owner such that Owner is no longer controlled by Acuity Brands, Inc.; and (d) a change in the ownership of Acuity Brands, Inc. such that it is no longer a publicly held company. Notwithstanding the foregoing, the following transfer shall not be deemed to be a sale, conveyance, mortgage, grant, bargain, encumbrance, pledge, assignment, or transfer within the meaning of this Article 8: a transfer by devise or descent or by operation of law upon the death of a member,

general partner or stockholder of Owner, any Guarantor or any Indemnitor or any general partner or member thereof.

Section 8.3 LENDER'S RIGHTS. Lender reserves the right to condition the consent required under section 8.1 upon a modification of the terms of the Note, this Security Instrument and the Other Security Documents and on assumption of the Note, this Security Instrument and the Other Security Documents as so modified by the proposed transferee, payment of a transfer fee, and all of Lender's reasonable expenses incurred in connection with such transfer, the proposed transferee's continued compliance with the covenants set forth in this Security Instrument, including, without limitation, the covenants in Section 4.2 hereof, or such other conditions as Lender shall determine in its sole discretion to be in the interest of Lender. All of Lender's expenses incurred shall be payable by Owner whether or not Lender consents to the transfer. Lender shall not be required to demonstrate any actual impairment of its security or any increased risk of default hereunder in order to declare the Debt immediately due and payable upon Owner's sale, conveyance, mortgage, grant, bargain, encumbrance, pledge, assignment, or transfer of the Property without Lender's consent if such consent is expressly required under this Article 8. This provision shall apply to every sale, conveyance, mortgage, grant, bargain, encumbrance, pledge, assignment, or transfer of the Property regardless of whether voluntary or not, or whether or not Lender has consented to any previous sale, conveyance, mortgage, grant, bargain, encumbrance, pledge, assignment, or transfer of the Property.

ARTICLE 9 - PREPAYMENT

Section 9.1 PREPAYMENT BEFORE EVENT OF DEFAULT. The Debt may be prepaid only in strict accordance with the express terms and conditions of the Note.

Section 9.2 PREPAYMENT ON CASUALTY/CONDEMNATION AND CHANGE IN TAX AND DEBIT CREDIT LAWS. Provided no Event of Default exists under the Note, this Security Instrument or the Other Security Documents, in the event of any prepayment of the Debt pursuant to the terms of Sections 3.7 or 7.3 hereof, no prepayment penalty shall be due in connection therewith, but Borrower shall be responsible for all other amounts due under the Note, this Security Instrument and the Other Security Documents.

ARTICLE 10 - DEFAULT

Section 10.1 EVENTS OF DEFAULT. The occurrence of any one or more of the following events shall constitute an "Event of Default":

(a) If any portion of the Debt is not paid within ten (10) days after receipt of written notice of nonpayment from Lender, or if the entire Debt is not paid on or before the Maturity Dates, provided such nonpayment continues for more than ten (10) days after receipt of written notice of such nonpayment from Lender;

(b) If any of the Taxes or Other Charges is not paid when the same is due and payable (but only if Owner fails to pay such Taxes or Other Charges ten (10) days after receipt of written notice of such nonpayment) except to the extent sums sufficient to pay such Taxes and Other

Charges have been deposited with Lender in accordance with the terms of this Security Instrument or are contested by appropriate proceedings;

(c) If the Policies are not kept in full force and effect, or if the Policies are not delivered to Lender upon request;

(d) If Owner violates, breaches or does not comply with any of the provisions of Article 4 or Article 8;

(e) If any representation or warranty of Owner or Borrower or performance by Owner or Borrower of any of the terms of this Security Instrument, or any member, general partner, principal or beneficial owner of any of the foregoing, made herein or in the Environmental Indemnity (defined below) or in any guaranty, or in any certificate, report, financial statement or other instrument or document furnished to Lender shall have been false or misleading in any material respect when made;

(f) If (i) Any Borrower shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, conservatorship or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or any Borrower shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against any Borrower any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against any Borrower any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets which results in the entry of any order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) any Borrower shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) any Borrower shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due;

(g) If Owner shall be in default beyond applicable notice and grace periods under any other mortgage, deed of trust, deed to secure debt or other security agreement covering any part of the Property whether it be superior or junior in lien to this Security Instrument;

(h) If the Property becomes subject to any mechanic's, materialman's or other lien other than a lien for local real estate taxes and assessments not then due and payable, and the lien shall remain undischarged of record (by payment, bonding or otherwise) for a period of thirty (30) days after it is filed;

(i) If any federal tax lien is filed against any Borrower or the Property and same is not discharged of record within thirty (30) days after same is filed;

(j) If any default occurs under any guaranty or indemnity executed in connection herewith (including the Environmental Indemnity, defined in Section 13.4) and such default continues after the expiration of applicable grace periods, if any;

(k) If for more than ten (10) days after notice from Lender, Owner and/or Borrower shall continue to be in default under any other term, covenant or condition of the Note, this Security Instrument or the Other Security Documents in the case of any default which can be cured by the payment of a sum of money, or for thirty (30) days after notice from Lender in the case of any other default, provided that if such default cannot reasonably be cured within such thirty (30) day period and Owner and/or Borrower shall have commenced to cure such default within such thirty (30) day period and thereafter diligently and expeditiously proceeds to cure the same, such thirty (30) day period shall be extended for so long as it shall require Owner and/or Borrower in the exercise of due diligence to cure such default, it being agreed that no such extension shall be for a period in excess of sixty (60) days;

(l) If any amendment to or termination of a financing statement naming Owner and/or Borrower as debtor and Lender as secured party, or any correction statement with respect thereto, is filed in any jurisdiction by any party other than Lender or its counsel without the prior written consent of Lender, and such filing is not corrected to Lender's satisfaction within ten (10) days of notice by Lender to Owner of such filing; or

(m) If there shall occur a Default (and such Default is not cured within any applicable grace period) as such term is defined in the agreement governing the Default, under the terms of (i) that certain 3-Year Revolving Credit Agreement among Borrower and Bank One, NA, as Administrative Agent, dated as of April 8, 2002; (ii) that certain 364-Day Revolving Credit Agreement among Borrower and Bank One, NA, as Administrative Agent, dated as of April 8, 2002; or (iii) any other indebtedness of Borrower individually or in the aggregate that equals or exceeds \$25,000,000.00.

ARTICLE 11 - RIGHTS AND REMEDIES

Section 11.1 REMEDIES. Upon the occurrence of any Event of Default, Borrower agrees that Lender may take such action, without notice or demand, as it deems advisable to protect and enforce its rights against Owner and/or Borrower and in and to the Property, including, but not limited to, the following actions, each of which may be pursued concurrently or otherwise, at such time and in such order as Lender may determine, in its sole discretion, without impairing or otherwise affecting the other rights and remedies of Lender:

(a) Declare the entire unpaid Debt to be immediately due and payable;

(b) Institute proceedings, judicial or otherwise, for the complete foreclosure of this Security Instrument under any applicable provision of law in which case the Property or any

interest therein may be sold for cash or upon credit in one or more parcels or in several interests or portions and in any order or manner;

(c) With or without entry, to the extent permitted and pursuant to the procedures provided by applicable law, institute proceedings for the partial foreclosure of this Security Instrument for the portion of the Debt then due and payable, subject to the continuing lien and security interest of this Security Instrument for the balance of the Debt not then due, unimpaired and without loss of priority;

(d) Sell the Property at auction at the usual place for conducting sales at the courthouse in the county in which the Property, or any part thereof, is located, to the highest bidder for cash, after advertising the time, terms and place of such sale once a week for four weeks immediately preceding such sale (but without regard to the number of days intervening between the date of publication of the first advertisement and the date of sale) in a newspaper published in such county, or in the paper in which the sheriff's advertisements for such county are then being published, all other notice being hereby waived by Owner. Lender, its agents, representatives, successors or assigns, may bid and purchase at such sale. Lender may thereupon execute and deliver to the purchaser at such sale a conveyance of the Property in fee simple, which conveyance shall contain recitals as to the Event of Default upon which the execution of the power of sale herein granted depends, and Owner hereby constitutes and appoints Lender the true and lawful attorney in fact of Owner to make such recitals, sale and conveyance, and all of the acts of Lender as such attorney in fact are hereby ratified and confirmed. Owner agrees that such recitals shall be binding and conclusive upon Owner and that the conveyance to be made by Lender shall divest Owner of all right, title, interest, equity and right of redemption, including any statutory redemption, in and to the Property. Lender shall collect the proceeds of such sale, and after reserving therefrom the entire debt secured hereby (and reasonable attorney's fees) and all costs and expenses of such sale, shall pay any surplus to Owner, all as provided by law. The power and agency hereby granted are coupled with an interest and are irrevocable by death or dissolution, or otherwise, and are in addition to any and all other remedies which Lender may have hereunder, at law or in equity. Lender, its agents, representatives, successors or assigns, may be a purchaser of the Property or any part thereof or any interest therein at any sale thereof, whether pursuant to foreclosure or otherwise hereunder, and may apply upon the purchase price the Debt owing to such purchaser, to the extent of such purchaser's distributive share of the purchase price. Any such purchaser shall, upon any such purchase, acquire good title to the Property so purchased, free of all rights of redemption in Owner.

(e) Subject to the provisions of Article 15, institute an action, suit or proceeding in equity for the specific performance of any covenant, condition or agreement contained herein, in the Note or in the Other Security Documents;

(f) Subject to the provisions of Article 15, recover judgment on the Note either before, during or after any proceedings for the enforcement of this Security Instrument or the Other Security Documents;

(g) Apply for the appointment of a receiver, trustee, liquidator or conservator of the Property, without notice and without regard for the adequacy of the security for the Debt and without regard for the solvency of Owner and/or Borrower;

(h) Subject to any applicable law, the license granted to Owner under Section 1.2 shall automatically be revoked and Lender may enter into or upon the Property, either personally or by its agents, nominees or attorneys and dispossess Owner and its agents and servants therefrom, without liability for trespass, damages or otherwise and exclude Owner and its agents or servants wholly therefrom, and take possession of all books, records and accounts relating thereto and Owner agrees to surrender possession of the Property and of such books, records and accounts to Lender upon demand, and thereupon Lender may (i) use, operate, manage, control, insure, maintain, repair, restore and otherwise deal with all and every part of the Property; (ii) complete any construction on the Property in such manner and form as Lender deems advisable; (iii) make alterations, additions, renewals, replacements and improvements to or on the Property; (iv) exercise all rights and powers of Owner with respect to the Property, whether in the name of Owner or otherwise, including, without limitation, the right to make, cancel, enforce or modify Leases, obtain and evict tenants, and demand, sue for, collect and receive all Rents of the Property and every part thereof; (v) require Owner to pay monthly in advance to Lender, or any receiver appointed to collect the Rents, the fair and reasonable rental value for the use and occupation of such part of the Property as may be occupied by Owner; (vi) require Owner to vacate and surrender possession of the Property to Lender or to such receiver and, in default thereof, Owner may be evicted by summary proceedings or otherwise; and (vii) apply the receipts from the Property to the payment of the Debt, in such order, priority and proportions as Lender shall deem appropriate in its sole discretion after deducting therefrom all expenses (including reasonable attorneys' fees actually incurred) incurred in connection with the aforesaid operations and all amounts necessary to pay the Taxes, Other Charges, insurance and other expenses in connection with the Property, as well as just and reasonable compensation for the services of Lender, its counsel, agents and employees;

(i) Exercise any and all rights and remedies granted to a secured party upon default under the Uniform Commercial Code, including, without limiting the generality of the foregoing: (i) the right to take possession of the Personal Property or any part thereof, and to take such other measures as Lender may deem necessary for the care, protection and preservation of the Personal Property, and (ii) request Owner and/or Borrower at its expense to assemble the Personal Property and make it available to Lender at a convenient place acceptable to Lender. Any notice of sale, disposition or other intended action by Lender with respect to the Personal Property sent to Owner and/or Borrower in accordance with the provisions hereof at least five (5) days prior to such action, shall constitute commercially reasonable notice to Owner and/or Borrower;

(j) Surrender the Policies maintained pursuant to Article 3 hereof, collect the unearned Insurance Premiums and apply such sums as a credit on the Debt in such priority and proportion as Lender in its discretion shall deem proper, and in connection therewith, Owner hereby appoints Lender as agent and attorney-in-fact (which is coupled with an interest and is therefore irrevocable) for Owner to collect such Insurance Premiums (except that Owner's policy of liability insurance may not be surrendered by Lender unless and until Lender has actually foreclosed on the Property as herein provided);

(k) Apply the undisbursed balance of any Net Proceeds Deficiency deposit, together with interest thereon, to the payment of the Debt in such order, priority and proportions as Lender shall deem to be appropriate in its discretion; or

(l) Pursue such other remedies as Lender may have under applicable law.

In the event of a sale, by foreclosure, power of sale, or otherwise, of less than all of the Property, this Security Instrument shall continue as a lien and security interest on the remaining portion of the Property unimpaired and without loss of priority. Notwithstanding the provisions of this Section 11.1 to the contrary, if any Event of Default as described in clause (i) or (ii) of Subsection 10.1(f) shall occur, the entire unpaid Debt shall be automatically due and payable, without any further notice, demand or other action by Lender.

Section 11.2 APPLICATION OF PROCEEDS. The purchase money proceeds and avails of any disposition of the Property, or any part thereof, or any other sums collected by Lender pursuant to the Note, this Security Instrument or the Other Security Documents, may be applied by Lender to the payment of the Debt in such priority and proportions as Lender in its discretion shall deem proper.

Section 11.3 RIGHT TO CURE DEFAULTS. Upon the occurrence of any Event of Default, Lender may, but without any obligation to do so and without further notice to or demand on Borrower and without releasing Borrower from any obligation hereunder, make or do the same in such manner and to such extent as Lender may deem necessary to protect the security hereof. Lender is authorized to enter upon the Property for such purposes, or appear in, defend, or bring any action or proceeding to protect its interest in the Property or to foreclose this Security Instrument or collect the Debt, and the cost and expense thereof (including reasonable attorneys' fees actually incurred to the extent permitted by law), with interest as provided in this Section 11.3, shall constitute a portion of the Debt and shall be due and payable to Lender upon demand. All such costs and expenses incurred by Lender in remedying such Event of Default or such failed payment or act or in appearing in, defending, or bringing any such action or proceeding shall bear interest at the Default Rate (as defined in the Note), for the period after notice from Lender that such cost or expense was incurred to the date of payment to Lender. All such costs and expenses incurred by Lender together with interest thereon calculated at the Default Rate shall be deemed to constitute a portion of the Debt and be secured by this Security Instrument and the Other Security Documents and shall be immediately due and payable upon demand by Lender therefor.

Section 11.4 ACTIONS AND PROCEEDINGS. After the occurrence and during the continuance of an Event of Default, Lender has the right to appear in and defend any action or proceeding brought with respect to the Property and to bring any action or proceeding, in the name and on behalf of Owner, which Lender, in its discretion, decides should be brought to protect its interest in the Property.

Section 11.5 RECOVERY OF SUMS REQUIRED TO BE PAID. Lender shall have the right from time to time to take action to recover any sum or sums which constitute a part of the Debt as the same become due, without regard to whether or not the balance of the Debt shall be due, and without prejudice to the right of Lender thereafter to bring an action of foreclosure, or any

other action, for a default or defaults by Owner and/or Borrower existing at the time such earlier action was commenced.

Section 11.6 EXAMINATION OF BOOKS AND RECORDS. Lender, its agents, accountants and attorneys shall have the right, upon prior written notice to Owner if no Event of Default exists, to examine and audit, during reasonable business hours, the records, books, management and other papers of Owner and Borrower, which pertain to their financial condition or the income, expenses and operation of the Property, at the Property or at any office regularly maintained by Owner and/or Borrower where the books and records are located. Lender and its agents shall have the right to make copies and extracts from the foregoing records and other papers.

Section 11.7 OTHER RIGHTS, ETC. (a) The failure of Lender to insist upon strict performance of any term hereof shall not be deemed to be a waiver of any term of this Security Instrument. Neither Owner nor Borrower shall be relieved of their obligations hereunder by reason of (i) the failure of Lender to comply with any request of Owner and/or Borrower to take any action to foreclose this Security Instrument or otherwise enforce any of the provisions hereof or of the Note or the Other Security Documents, (ii) the release, regardless of consideration, of the whole or any part of the Property, or of any person liable for the Debt or any portion thereof except as expressly set forth in such release, or (iii) any agreement or stipulation by Lender extending the time of payment or otherwise modifying or supplementing the terms of the Note, this Security Instrument or the Other Security Documents.

(b) It is agreed that the risk of loss or damage to the Property is on Owner, and Lender shall have no liability whatsoever for decline in value of the Property, for failure to maintain the Policies, or for failure to determine whether insurance in force is adequate as to the amount of risks insured. Possession by Lender shall not be deemed an election of judicial relief, if any such possession is requested or obtained, with respect to any Property or collateral not in Lender's possession.

(c) Lender may resort for the payment of the Debt to the security held by Lender hereunder in such order and manner as Lender, in its discretion, may elect. Lender may take action to recover the Debt, or any portion thereof, or to enforce any covenant hereof without prejudice to the right of Lender thereafter to foreclose this Security Instrument. The rights of Lender under this Security Instrument shall be separate, distinct and cumulative and none shall be given effect to the exclusion of the others. No act of Lender shall be construed as an election to proceed under any one provision herein to the exclusion of any other provision. Lender shall not be limited exclusively to the rights and remedies herein stated but shall be entitled to every right and remedy now or hereafter afforded at law or in equity.

Section 11.8 RIGHT TO RELEASE ANY PORTION OF THE PROPERTY. Lender may release any portion of the Property for such consideration as Lender may require without, as to the remainder of the Property, in any way impairing or affecting the lien or priority of this Security Instrument, or improving the position of any subordinate lienholder with respect thereto, except to the extent that the obligations hereunder shall have been reduced by the actual monetary consideration, if any, received by Lender for such release, and may accept by assignment, pledge or otherwise any other property in place thereof as Lender may require without being accountable for

so doing to any other lienholder. This Security Instrument shall continue as a lien and security interest in the remaining portion of the Property.

Section 11.9 VIOLATION OF LAWS. If the Property is not in compliance with Applicable Laws, Lender may impose additional requirements upon Owner in connection herewith including, without limitation, monetary reserves or financial equivalents.

Section 11.10 RIGHT OF ENTRY. Lender and its agents shall have the right to enter and inspect the Property at all reasonable times upon reasonable advance notice, and Lender shall comply with all reasonable security procedures during any such inspections.

Section 11.11 SUBROGATION. If any or all of the proceeds of the Note have been used to extinguish, extend or renew any indebtedness heretofore existing against the Property, then, to the extent of the funds so used, Lender shall be subrogated to all of the rights, claims, liens, titles, and interests existing against the Property heretofore held by, or in favor of, the holder of such indebtedness and such former rights, claims, liens, titles, and interests, if any, are not waived but rather are continued in full force and effect in favor of Lender and are merged with the lien and security interest created herein as cumulative security for the repayment of the Debt, the performance and discharge of Owner's and/or Borrower's obligations hereunder, under the Note and the Other Security Documents and the performance and discharge of the Other Obligations.

Section 11.12 WAIVER. OWNER AND EACH BORROWER HEREBY WAIVE ANY RIGHT THEY MAY HAVE UNDER THE CONSTITUTION OR THE LAWS OF THE STATE OF GEORGIA OR THE CONSTITUTION OR THE LAWS OF THE UNITED STATES OF AMERICA TO NOTICE, OTHER THAN EXPRESSLY PROVIDED FOR IN THIS DEED, OR TO A JUDICIAL HEARING PRIOR TO THE EXERCISE OF ANY RIGHT OR REMEDY PROVIDED BY THIS DEED TO SECURE DEBT AND SECURITY AGREEMENT TO THE LENDER AND OWNER AND EACH BORROWER WAIVES THEIR RIGHTS, IF ANY, TO SET ASIDE OR INVALIDATE ANY SALE DULY CONSUMMATED IN ACCORDANCE WITH THE PROVISIONS OF THIS DEED TO SECURE DEBT AND SECURITY AGREEMENT ON THE GROUND (IF SUCH BE THE CASE) THAT THE SALE WAS CONSUMMATED WITHOUT A PRIOR JUDICIAL HEARING. ALL WAIVERS IN THIS PARAGRAPH HAVE BEEN MADE VOLUNTARILY, INTELLIGENTLY AND KNOWINGLY, AFTER OWNER AND EACH BORROWER HAS BY THEIR ATTORNEY BEEN FIRST APPRISED OF AND COUNSELED WITH RESPECT TO THEIR POSSIBLE ALTERNATIVE RIGHTS.

INITIALS OF AN OFFICER ON BEHALF
OF OWNER AND EACH BORROWER _____

ARTICLE 12 - ENVIRONMENTAL MATTERS

Section 12.1 ENVIRONMENTAL REPRESENTATIONS, WARRANTIES AND COVENANTS. Owner and Borrower herein agree that the environmental representations, warranties and covenants contained in the Environmental Indemnity (as hereinafter defined) for the

benefit of Lender are hereby made a part of this Security Instrument to the same extent and with the same force as if fully set forth herein.

Section 12.2 LENDER'S RIGHTS. Owner shall cooperate with Lender and its representatives as reasonably necessary to investigate any Releases or threatened Releases upon the Property. Upon providing reasonable notice, Lender and its representatives may enter upon the Property at all reasonable times and in accordance with Owner's reasonable safety and other regulations to assess any and all aspects of the environmental condition of the Property and its use, including but not limited to conducting any environmental assessment or audit and to the extent that reasonable cause exists based upon said environmental assessment or audit, Lender shall have the right, in its sole discretion and after providing notice to Owner, to take samples of soil, groundwater or other water, air, or building materials, and conduct other invasive testing.

ARTICLE 13 - INDEMNIFICATIONS

Section 13.1 GENERAL INDEMNIFICATION. Borrower shall, at its sole cost and expense, protect, defend, indemnify, release and hold harmless the Indemnified Parties (defined below) from and against any and all Losses (defined below) imposed upon or incurred by or asserted against any Indemnified Parties and directly or indirectly arising out of or in any way relating to any one or more of the following: (a) any accident, injury to or death of persons or loss of or damage to property occurring in, on or about the Property or any part thereof or on the adjoining sidewalks, curbs, adjacent property or adjacent parking areas, streets or ways; (b) any use, nonuse or condition in, on or about the Property or any part thereof or on the adjoining sidewalks, curbs, adjacent property or adjacent parking areas, streets or ways; (c) performance of any labor or services or the furnishing of any materials or other property in respect of the Property or any part thereof; (d) any failure of the Property to be in compliance with any Applicable Laws; (e) any and all claims and demands whatsoever which may be asserted against Lender by reason of any alleged obligations or undertakings on its part to perform or discharge any of the terms, covenants, or agreements contained in any Lease; or (f) the payment of any commission, charge or brokerage fee to anyone which may be payable in connection with the funding of the Loan evidenced by the Note and secured by this Security Instrument claiming by, through, or under Borrower. Any amounts payable to Lender by reason of the application of this Section 13.1 shall become immediately due and payable and shall bear interest at the Default Rate from the date loss or damage is sustained by Lender until paid.

The term "Losses" shall mean any and all claims, suits, liabilities (including, without limitation, strict liabilities), actions, proceedings, obligations, debts, damages, losses, costs, expenses, fines, penalties, charges, fees, expenses, judgments, awards, amounts paid in settlement of whatever kind or nature (including but not limited to reasonable attorneys' fees actually incurred and other costs of defense). The term "Indemnified Parties" shall mean (a) Lender, (b) any prior owner or holder of the Note, (c) any servicer or prior servicer of the Loan, (d) the officers, directors, shareholders, partners, employees and trustees of any of the foregoing, and (e) the heirs, legal representatives, successors and assigns of each of the foregoing. Borrower's obligations in this Article 13 shall not apply to the extent caused by the gross negligence or willful misconduct of Lender or its agents or representatives.

Section 13.2 MORTGAGE AND/OR INTANGIBLE TAX. Borrower shall, at its sole cost and expense, protect, defend, indemnify, release and hold harmless the Indemnified Parties from and against any and all Losses imposed upon or incurred by or asserted against any Indemnified Parties and directly or indirectly arising out of or in any way relating to any tax on the making and/or recording of this Security Instrument, the Note or any of the Other Security Documents.

Section 13.3 DUTY TO DEFEND; ATTORNEYS' FEES AND OTHER FEES AND EXPENSES. Upon written request by any Indemnified Party, Borrower shall defend such Indemnified Party (if requested by any Indemnified Party, in the name of the Indemnified Party) by attorneys and other professionals approved by the Indemnified Parties, which approval shall not be unreasonably withheld. Notwithstanding the foregoing, any Indemnified Parties may, in their sole discretion, engage their own attorneys and other professionals to defend or assist them, and, at the option of Indemnified Parties, their attorneys shall control the resolution of claim or proceeding. Upon demand, Borrower shall pay or, in the sole discretion of the Indemnified Parties, reimburse, the Indemnified Parties for the payment of reasonable fees and disbursements of attorneys, engineers, environmental consultants, laboratories and other professionals in connection therewith.

Section 13.4 ENVIRONMENTAL INDEMNITY. Simultaneously with this Security Instrument, Borrower and other persons or entities defined therein have executed and delivered that certain environmental indemnity agreement dated the date hereof (collectively, the "Indemnitors") to Lender (the "Environmental Indemnity").

ARTICLE 14 - WAIVERS

Section 14.1 WAIVER OF COUNTERCLAIM. Borrower hereby waives the right to assert a counterclaim, other than a mandatory or compulsory counterclaim, in any action or proceeding brought against it by Lender arising out of or in any way connected with this Security Instrument, the Note, any of the Other Security Documents, or the Obligations.

Section 14.2 MARSHALING AND OTHER MATTERS. Owner hereby waives, to the extent permitted by law, the benefit of all appraisal, valuation, stay, extension, reinstatement and redemption laws now or hereafter in force and all rights of marshaling in the event of any sale hereunder of the Property or any part thereof or any interest therein. Further, Owner hereby expressly waives any and all rights of redemption from sale under any order or decree of foreclosure of this Security Instrument on behalf of Owner, and on behalf of each and every person acquiring any interest in or title to the Property subsequent to the date of this Security Instrument and on behalf of all persons to the extent permitted by applicable law.

Section 14.3 WAIVER OF NOTICE. Owner shall not be entitled to any notices of any nature whatsoever from Lender except (a) with respect to matters for which this Security Instrument, the Note, or the Other Security Instruments, specifically and expressly provides for the giving of notice by Lender to Owner and (b) with respect to matters for which Lender is required by applicable law to give notice, and Owner hereby expressly waives the right to receive any notice from Lender with respect to any matter for which this Security Instrument does not specifically and expressly provide for the giving of notice by Lender to Owner.

Section 14.4 WAIVER OF STATUTE OF LIMITATIONS. [OMITTED]

Section 14.5 DISCRETION OF LENDER. Wherever pursuant to this Security Instrument (a) Lender exercises any right given to it to approve or disapprove, (b) any arrangement or term is to be satisfactory to Lender, or (c) any other decision or determination is to be made by Lender, the decision of Lender to approve or disapprove, all decisions that arrangements or terms are satisfactory or not satisfactory and all other decisions and determinations made by Lender, shall be in the reasonable discretion of Lender, except as may be otherwise expressly and specifically provided herein.

Section 14.6 WAIVER OF TRIAL BY JURY. EACH BORROWER HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER IN CONTRACT, TORT OR OTHERWISE, RELATING DIRECTLY OR INDIRECTLY TO THE LOAN EVIDENCED BY THE NOTE, THE APPLICATION FOR THE LOAN EVIDENCED BY THE NOTE, THE NOTE, THIS SECURITY INSTRUMENT OR THE OTHER SECURITY DOCUMENTS OR ANY ACTS OR OMISSIONS OF LENDER, ITS OFFICERS, EMPLOYEES, DIRECTORS OR AGENTS IN CONNECTION THEREWITH.

ARTICLE 15 - EXCULPATION [OMITTED]

ARTICLE 16 - NOTICES

Section 16.1 NOTICES. All notices or other communications hereunder shall be in writing and shall be deemed to have been properly given when received (or, if undeliverable, upon attempted delivery) and may be sent: (i) in person or by facsimile transmission with receipt acknowledged by the recipient thereof and confirmed by telephone by sender, (ii) by any reputable overnight courier service, or (iii) by registered or certified mail, postage prepaid, return receipt requested, addressed to Owner and Borrower or Lender, as the case may be, at the addresses set forth on the first page of this Security Instrument or addressed as such party may from time to time designate by written notice to the other parties.

Either party by notice to the other may designate additional or different addresses for subsequent notices or communications.

For purposes of this Subsection, "Business Day" shall mean a day on which commercial banks are not authorized or required by law to close in Atlanta, Georgia.

ARTICLE 17 - APPLICABLE LAW

Section 17.1 CHOICE OF LAW. This Security Instrument shall be governed, construed, applied and enforced in accordance with the laws of the State of Georgia.

Section 17.2 PROVISIONS SUBJECT TO APPLICABLE LAW. All rights, powers and remedies provided in this Security Instrument may be exercised only to the extent that the exercise

thereof does not violate any applicable provisions of law and are intended to be limited to the extent necessary so that they will not render this Security Instrument invalid, unenforceable or not entitled to be recorded, registered or filed under the provisions of any applicable law.

ARTICLE 18 - SECONDARY MARKET

Section 18.1 TRANSFER OF LOAN. Lender may, at any time, sell, transfer or assign the Note, this Security Instrument and the Other Security Documents, and any or all servicing rights with respect thereto, or grant participations therein. Lender may forward to each purchaser, transferee, assignee, servicer or participant all documents and information which Lender now has or may hereafter acquire relating to the Debt and to Borrower and the Property, whether furnished by Owner and/or Borrower, as Lender determines necessary or desirable. Borrower irrevocably waives any and all rights it may have under applicable law to prohibit such disclosure, including but not limited to any right of privacy.

Section 18.2 COOPERATION. Owner and Borrower agree to cooperate with Lender in connection with any transfer made pursuant to this Section, including, without limitation, the delivery of an estoppel certificate required in accordance with Subsection 7.4(c) hereof and such other documents as may be reasonably requested by Lender. Owner and Borrower shall also furnish and Owner and Borrower consent to Lender furnishing to such purchaser any and all information concerning the Property, the Leases, the financial condition of Owner and Borrower, as may be reasonably requested by Lender, any purchaser or any prospective purchaser in connection with any sale, transfer or participation interest.

ARTICLE 19 - COSTS

Section 19.1 PERFORMANCE AT BORROWER'S EXPENSE. Borrower acknowledges and confirms that Lender shall impose certain reasonable administrative processing and/or commitment fees in connection with (a) the extension, renewal, modification, or amendment of the Loan, (b) the substitution of collateral therefor, (c) obtaining certain consents, waivers and approvals with respect to the Property, or (d) the review of any Lease or proposed Lease or the preparation or review of any subordination, non-disturbance agreement (the occurrence of any of the above shall be called an "Event"). Owner and/or Borrower further acknowledge and confirm that it shall be responsible for the payment of all costs of reappraisal of the Property or any part thereof, required by law, regulation, or any governmental or quasi- governmental authority. Wherever it is provided for herein that Owner and/or Borrower pay any costs and expenses, such costs and expenses shall include, but not be limited to, all reasonable legal fees and disbursements of Lender actually incurred.

Section 19.2 LEGAL FEES FOR ENFORCEMENT. (a) Owner and/or Borrower shall pay all reasonable legal fees incurred by Lender in connection with (i) the preparation of the Note, this Security Instrument and the Other Security Documents and (ii) the items set forth in Section 19.1 above, and (b) Owner and/or Borrower shall pay to Lender on demand any and all expenses, including reasonable legal expenses and attorneys' fees, incurred or paid by Lender in protecting its interest in the Property or in collecting any amount payable hereunder or in enforcing its rights hereunder with respect to the Property, whether or not any legal proceeding is commenced

hereunder or thereunder, together with interest thereon at the Default Rate from the date paid or incurred by Lender until such expenses are paid by Owner and/or Borrower.

ARTICLE 20 - DEFINITIONS

Section 20.1 GENERAL DEFINITIONS. Unless the context clearly indicates a contrary intent or unless otherwise specifically provided herein, words used in this Security Instrument may be used interchangeably in singular or plural form and the word "Borrower" shall mean each Borrower or all Borrowers, and the word "Owner" shall mean any subsequent owner or owners of the Property or any part thereof or any interest therein, the word "Lender" shall mean "Lender and any subsequent holder of the Note," the word "Note" shall mean "the Note and any other evidence of indebtedness secured by this Security Instrument," the word "person" shall include an individual, corporation, partnership, limited liability company, trust, unincorporated association, government, governmental authority, and any other entity, the word "Property" shall include any portion of the Property and any interest therein, and the phrases "attorneys' fees" and "counsel fees" shall include any and all reasonable attorneys', paralegal and law clerk fees actually incurred and disbursements, including, but not limited to, fees and disbursements at the pre-trial, trial and appellate levels incurred or paid by Lender in protecting its interest in the Property, the Leases and the Rents and enforcing its rights hereunder.

Section 20.2 HEADINGS, ETC. The headings and captions of various Articles and Sections of this Security Instrument are for convenience of reference only and are not to be construed as defining or limiting, in any way, the scope or intent of the provisions hereof.

ARTICLE 21- MISCELLANEOUS PROVISIONS

Section 21.1 NO ORAL CHANGE. This Security Instrument, and any provisions hereof, may not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Owner or Lender, but only by an agreement in writing signed by the party against whom enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

Section 21.2 LIABILITY. If Owner and/or Borrower consist of more than one person, the obligations and liabilities of each such person hereunder shall be joint and several. This Security Instrument shall be binding upon and inure to the benefit of Owner, Borrower and Lender and their respective successors and assigns forever.

Section 21.3 INAPPLICABLE PROVISIONS. If any term, covenant or condition of the Note or this Security Instrument is held to be invalid, illegal or unenforceable in any respect, the Note and this Security Instrument shall be construed without such provision.

Section 21.4 DUPLICATE ORIGINALS; COUNTERPARTS. This Security Instrument may be executed in any number of duplicate originals and each duplicate original shall be deemed to be an original. This Security Instrument may be executed in several counterparts, each of which counterparts shall be deemed an original instrument and all of which together shall constitute a

single Security Instrument. The failure of any party hereto to execute this Security Instrument, or any counterpart hereof, shall not relieve the other signatories from their obligations hereunder.

Section 21.5 NUMBER AND GENDER. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

IN WITNESS WHEREOF, THIS SECURITY INSTRUMENT has been executed by Owner and consented to and acknowledged by Borrower the day and year first above written.

OWNER AND BORROWER:

ACUITY LIGHTING GROUP, INC.,
a Delaware corporation

By: /s/ Vernon J. Nagel

Vernon J. Nagel, Executive Vice
President, Finance

[CORPORATE SEAL]

Signed, sealed and delivered in the presence of:

Unofficial Witness

Notary Public
My Commission Expires:

[Notarial Seal]

The undersigned herein execute this Deed to Secure Debt and Security Agreement, not as one having an ownership interest in the Premises, but for the purpose of confirming and consenting to the representations and covenants of the undersigned as Borrower as contained herein and consenting to the conveyance by the undersigned of any interest in any personal property or fixtures attached to and a part of the Property.

BORROWER:

ACUITY BRANDS, INC.,
a Delaware corporation

By: /s/ Vernon J. Nagel

Vernon J. Nagel, Executive Vice
President and Chief Financial
Officer

[CORPORATE SEAL]

BORROWER:

ACUITY SPECIALTY PRODUCTS GROUP, INC.,
a Delaware corporation

By: /s/ Vernon J. Nagel

Vernon J. Nagel, Executive Vice
President, Finance

Signed, sealed and delivered in the
presence of:

[CORPORATE SEAL]

Unofficial Witness

Notary Public
My Commission Expires:

[Notary Seal]

PROMISSORY NOTE

\$20,000,000.00

Atlanta, Georgia
October 11, 2002

FOR VALUE RECEIVED ACUIY BRANDS, INC., ACUIY LIGHTING GROUP, INC. and ACUIY SPECIALTY PRODUCTS GROUP, INC., Delaware corporations, as makers, having their principal place of business at 1170 Peachtree Street, N.E., Suite 2400, Atlanta, Georgia 30309 (collectively "Borrower"), hereby, jointly and severally, unconditionally promise to pay to the order of REGIONS BANK, an Alabama banking corporation, as payee, having an address at 400 Embassy Row, Suite 210, 6600 Peachtree Dunwoody Road, Atlanta, Georgia 30328 ("Lender"), or at such other place as the holder hereof may from time to time designate in writing, the principal sum of TWENTY MILLION AND NO/100 DOLLARS (\$20,000,000.00), in lawful money of the United States of America with interest thereon to be computed from the date of this Note at the Applicable Interest Rate (defined below) in accordance with the terms of this Note.

ARTICLE 1: DEFINITIONS RELATING TO INDEX

As used in this Note, the following capitalized terms will have the meanings indicated:

(a) "Business Day" means a day on which the office of the Lender at which payments under this Note are to be made is open for business.

(b) "Interest Period" means, with respect to the initial Interest Period hereunder, the period commencing on the date of this Note and, with respect to any subsequent Interest Period hereunder, the period commencing on the last day of the immediately preceding Interest Period, and in any case ending on the date numerically corresponding to the date of the Note in the first month thereafter; provided that any Interest Period which begins on a day of a calendar month for which there is no numerically corresponding day in the appropriate subsequent calendar month shall end on the last day of the appropriate subsequent calendar month.

(c) "LIBOR Business Day" means a day on which the office of the Lender at which payments under this Note are to be made is open for business and on which dealings in U.S. dollar deposits are carried out in the London interbank market.

(d) "London Interbank Offered Rate" means, with respect to any Interest Period, that rate for deposits in U.S. dollars for a period comparable to the term of such Interest Period which appears on Telerate Page 3750 as of 11:00 a.m., London, England time on the date (the "Pricing Date") that is two LIBOR Business Days preceding the first day of such Interest Period, as such rate is published on the Business Day next following the Pricing Date in the Money Market Section of The Wall Street Journal. If such rate cannot be so determined for any reason, Lender will request the principal London office of at least two banks to provide a quotation of its rate for deposits in

U.S. dollars for a period comparable to the applicable Interest Period and the rate for such Interest Period will be the arithmetic mean of such quotations.

(e) "Payment Date" means the last day of each Interest Period, provided that if such day falls on a day which is not a Business Day, the Payment Date shall be the next succeeding Business Day.

ARTICLE 2: PAYMENT TERMS

Borrower agrees to make payments under this Note in installments as follows:

During the term of this Note, which is defined as that period running from the date of this Note through and including September 30, 2005, Borrower shall make principal and interest payments on a quarterly basis on the last day of each calendar quarter (a "Payment Date"), with the first such payment being due on December 31, 2002, with payments continuing thereafter on the last day of each successive calendar quarter, except for the final payment which shall be a balloon payment of all unpaid principal and any accrued interest and shall be due and payable in full on September 30, 2005 (the "Maturity Date"). The payments shall be computed in the manner set forth below.

Principal payments for each quarter shall be payable on the last day of each quarter and shall be in the amounts as set forth on Schedule "A" attached hereto and incorporated herein by reference.

The interest payment due at the end of each quarter shall be the sum of the interest that has accrued during each of the three (3) months during the quarter based on the Applicable Interest Rate (as defined below) in effect as of the first (1st) day of each month as applied against the principal balance of the loan for that month.

The interest payment amount for each quarter shall be calculated on the fifteenth (15th) day prior to the end of the quarter, and a statement setting forth the principal payment amount and the interest payment amount shall be sent to Borrower at least ten (10) days prior to the Payment Date.

Lender shall have the right in its sole discretion, on each anniversary date of this Note, to extend the term of this Note for an additional year, and as a part of such extension to provide for such changes in the loan terms and to charge such extension fee as Lender, at its sole discretion, shall determine. If Lender elects to extend the term as herein provided, and assuming that Borrower consents to all of the terms of the extension, the necessary modification and extension documents shall be prepared by Lender for execution by the parties hereto. All reasonable costs and expenses of Lender (including reasonable attorney's fees actually incurred) associated with the modification and extension of the term of the Note as herein set forth shall be paid by Borrower.

ARTICLE 3: INTEREST

The interest rate on this Note (the "Applicable Interest Rate") shall be as follows:

The Applicable Interest Rate during the Term hereof shall be the London Interbank Offered Rate ("LIBOR") (as defined in Article 1) for one (1) month contracts as of the first (1st) day of each month, PLUS one hundred fifty (150) basis points. Such Applicable Interest Rate shall remain in effect through the last day of the month, at which time it will be subject to adjustment for the next succeeding month in the manner set forth above.

The initial Applicable Interest Rate for this Note, which is the rate for the period from the date of this Note through October 31, 2002, shall be 3.30%.

Interest on the principal balance of this Note shall be computed on the basis of a three hundred sixty (360) day year and paid for the actual number of days elapsed.

ARTICLE 4: DEFAULT AND ACCELERATION

If any payment required by this Note is not paid (a) prior to the tenth (10th) day after written notice of nonpayment from Lender if payment is not made on a Payment Date, (b) prior to the tenth (10th) day after written notice of nonpayment from Lender if payment is not made on the Maturity Date or (c) on the happening of any other default, after the expiration of any applicable notice and cure periods, herein or under the terms of the Security Instrument or any of the Other Security Documents (as defined in the Security Instrument) (collectively, an "Event of Default"), at the option of Lender (i) the whole of the principal sum of this Note, (ii) interest, default interest, late charges and other sums, as provided in this Note, the Security Instrument or the Other Security Documents, (iii) all other monies agreed or provided to be paid by Borrower in this Note, the Security Instrument or the Other Security Documents, (iv) all sums advanced pursuant to the Security Instrument to protect and preserve the Property (defined below) and the lien and the security interest created thereby, and (v) all sums advanced and costs and expenses incurred by Lender in connection with the Debt (defined below) or any part thereof, any renewal, extension, or change of or substitution for the Debt or any part thereof or the acquisition or perfection of the security therefor, whether made or incurred at the request of Borrower or Lender (all the sums referred to in (i) through (v) above shall collectively be referred to as the "Debt") shall without further notice become immediately due and payable.

ARTICLE 5: DEFAULT INTEREST

Borrower agrees that upon the occurrence of an Event of Default, Lender shall be entitled to receive and Borrower shall pay interest on the entire unpaid principal sum at a per annum rate equal to the lesser of (a) three percent (3%) plus the Applicable Interest Rate in effect at the time of the occurrence of the Event of Default, and (b) the maximum interest rate which Borrower may by law pay (the "Default Rate"). The Default Rate shall be computed from the occurrence of the Event of Default until the earlier of the date upon which the Event of Default is cured or

the date upon which the Debt is paid in full. Interest calculated at the Default Rate shall be added to the Debt, and shall be deemed secured by the Security Instrument. This clause, however, shall not be construed as an agreement or privilege to extend the date of the payment of the Debt, nor as a waiver of any other right or remedy accruing to Lender by reason of the occurrence of any Event of Default.

ARTICLE 6: LATE CHARGE

If any payment of principal or interest is late ten (10) days or more, in addition to interest after Default as provided above, Borrower agrees to pay a late charge equal to five percent (5%) of the amount of the payment which is late, not to exceed Five Hundred Dollars (\$500.00) as compensation for administrative and other costs associated with the late payment as set forth below. Lender shall not be obligated to accept any payment not accompanied by such late charge or applicable default interest.

ARTICLE 7: PREPAYMENT

The principal balance of this Note may be prepaid in whole or in part at any time without Borrower incurring or being charged a prepayment penalty or fee. However, notwithstanding such prepayment, all loan fees and any other prepaid finance charges (if any) shall be fully earned as of the date of this Note and not subject to refund upon early payment, whether voluntary or involuntary.

ARTICLE 8: SECURITY

This Note is secured by that certain Deed To Secure Debt and Security Agreement dated the date hereof in the principal sum of \$20,000,000.00 given by Acuity Lighting Group, Inc. ("Owner") to Lender covering the fee estate of Owner in certain premises located in Rockdale County, State of Georgia, and other property, as more particularly described therein (collectively, the "Property") and intended to be duly recorded in said County (the "Security Instrument"), and by the Other Security Documents.

ARTICLE 9: LOAN CHARGES

This Note, the Security Instrument and the Other Security Documents are subject to the express condition that at no time shall Borrower be obligated or required to pay interest on the principal balance due hereunder at a rate which could subject Lender to either civil or criminal liability as a result of being in excess of the maximum interest rate which Borrower is permitted by applicable law to contract or agree to pay. If by the terms of this Note, the Security Instrument and the Other Security Documents, Borrower is at any time required or obligated to pay interest on the principal balance due hereunder at a rate in excess of such maximum rate, the Applicable Interest Rate or the Default Rate, as the case may be, shall be deemed to be immediately reduced to such maximum rate and all previous payments in excess of the maximum rate shall be deemed to have been payments in reduction of principal and not on account of the interest due hereunder. All sums paid or agreed to be paid to Lender for the use,

forbearance, or detention of the Debt, shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full stated term of the Note until payment in full so that the rate or amount of interest on account of the Debt does not exceed the maximum lawful rate of interest from time to time in effect and applicable to the Debt for so long as the Debt is outstanding.

ARTICLE 10: WAIVERS

Borrower and all others who may become liable for the payment of all or any part of the Debt do hereby severally waive presentment and demand for payment, notice of dishonor, protest and notice of protest and non-payment and all other notices of any kind, except for notices expressly provided for in this Note, the Security Instrument or the Other Security Documents. No release of any security for the Debt or extension of time for payment of this Note or any installment hereof, and no alteration, amendment or waiver of any provision of this Note, the Security Instrument or the Other Security Documents made by agreement between Lender or any other person or party shall release, modify, amend, waive, extend, change, discharge, terminate or affect the liability of Borrower, and any other person or entity who may become liable for the payment of all or any part of the Debt, under this Note, the Security Instrument or the Other Security Documents. No notice to or demand on Borrower shall be deemed to be a waiver of the obligation of Borrower or of the right of Lender to take further action without further notice or demand as provided for in this Note, the Security Instrument or the Other Security Documents. If Borrower is a partnership, corporation or limited liability company, the agreements contained herein shall remain in full force and effect, notwithstanding any changes in the individuals or entities comprising the Borrower, and the term "Borrower," as used herein, shall include any alternate or successor entity, but any predecessor entity, and its partners or members, as the case may be, shall not thereby be released from any liability. (Nothing in the foregoing sentence shall be construed as a consent to, or a waiver of, any prohibition or restriction on transfers of interests in Borrower which may be set forth in the Security Instrument or any Other Security Document.)

ARTICLE 11: WAIVER OF TRIAL BY JURY

BORROWER HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER IN CONTRACT, TORT OR OTHERWISE, RELATING DIRECTLY OR INDIRECTLY TO THE LOAN EVIDENCED BY THIS NOTE, THE APPLICATION FOR THE LOAN EVIDENCED BY THIS NOTE, THIS NOTE, THE SECURITY INSTRUMENT OR THE OTHER SECURITY DOCUMENTS OR ANY ACTS OR OMISSIONS OF LENDER, ITS OFFICERS, EMPLOYEES, DIRECTORS OR AGENTS IN CONNECTION THEREWITH.

ARTICLE 12: AUTHORITY

Borrower represents that Borrower has full power, authority and legal right to execute and deliver this Note, the Security Instrument and the Other Security Documents and that this

Note, the Security Instrument and the Other Security Documents constitute valid and binding obligations of Borrower.

ARTICLE 13: GOVERNING LAW

This Note shall be governed, construed, applied and enforced in accordance with the laws of the State of Georgia.

ARTICLE 14: NOTICES

All notices required or permitted hereunder shall be given as provided in the Security Instrument.

ARTICLE 15: INCORPORATION BY REFERENCE

All of the terms, covenants and conditions contained in the Security Instrument and the Other Security Documents are hereby made part of this Note to the same extent and with the same force as if they were fully set forth herein.

ARTICLE 16: MISCELLANEOUS

(a) Wherever pursuant to this Note it is provided that Borrower pay any costs and expenses, such costs and expenses shall include, but not be limited to, reasonable legal fees and disbursements of Lender actually incurred. Borrower shall pay to Lender on demand any and all expenses, including legal expenses and reasonable attorneys' fees actually incurred, incurred or paid by Lender in enforcing this Note, whether or not any legal proceeding is commenced hereunder, together with interest thereon at the Default Rate from the date paid or incurred by Lender until such expenses are paid by Borrower.

(b) This Note may not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Borrower or Lender, but only by an agreement in writing signed by the party against whom enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

(c) If Borrower consists of more than one person or party, the obligations and liabilities of each person or party shall be joint and several.

(d) Whenever used, the singular number shall include the plural, the plural number shall include the singular, and the words "Lender" and "Borrower" shall include their respective successors, assigns, heirs, executors and administrators.

IN WITNESS WHEREOF, Borrower has executed this Note under seal as of the day and year first above written.

BORROWERS:

ACUITY BRANDS, INC.,
a Delaware corporation

By: /s/ Vernon J. Nagel

Vernon J. Nagel, Executive Vice President
and Chief Financial Officer

[CORPORATE SEAL]

ACUITY LIGHTING GROUP, INC.,
a Delaware corporation

By: /s/ Vernon J. Nagel

Vernon J. Nagel, Executive Vice President,
Finance

[CORPORATE SEAL]

ACUITY SPECIALTY PRODUCTS GROUP, INC.,
a Delaware corporation

By: /s/ Vernon J. Nagel

Vernon J. Nagel, Executive Vice President,
Finance

[CORPORATE SEAL]

SCHEDULE "A"

QUARTERLY PRINCIPAL PAYMENT AMOUNTS

Payment Date	Payment #	Amount
12/31/02	#1	\$175,000
03/31/03	#2	\$180,000
06/30/03	#3	\$180,000
09/30/03	#4	\$180,000
12/31/03	#5	\$180,000
03/31/04	#6	\$185,000
06/30/04	#7	\$186,000
09/30/04	#8	\$186,000
12/31/04	#9	\$188,000
03/31/05	#10	\$193,000
06/30/05	#11	\$192,000
09/30/05	#12	Remaining Principal Balance

LIST OF SUBSIDIARIES

ACUITY BRANDS, INC.

SUBSIDIARY OR AFFILIATE	PRINCIPAL LOCATION	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION
Acuity Holdings, Inc.	Montreal, Quebec, Canada	Canada
Acuity Insurance (Bermuda) Ltd.	Hamilton, Bermuda	Bermuda
Acuity Lighting Group, Inc.	Atlanta, Georgia	Delaware
Acuity Specialty Products Group, Inc.	Atlanta, Georgia	Delaware
C&G Carandini SA	Barcelona, Spain	Spain
Castlight de Mexico, S.A. de C.V.	Matamoros, Tamaulipas	Mexico
Graham International B.V.	Bergen op Zoom, Holland	Netherlands
Holophane S.A. de C.V.	Tultitlan, Mexico City	Mexico
Holophane Alumbrado Iberica S.r.l.	Barcelona, Spain	Spain
Holophane Canada, Inc.	Brampton, Ontario	Canada
Holophane Europe Ltd.	Milton Keynes, England	United Kingdom
Holophane Lichttechnik GmbH	Dusseldorf, Germany	Germany
HSA Acquisition Corporation	Columbus, Ohio	Ohio
ID Limited	Douglas, Isle of Man	Isle of Man
Kem Europa B.V.	Bergen op Zoom, Holland	Netherlands
L&C Funding, Inc.	Atlanta, Georgia	Delaware
Lithonia Lighting do Brasil Ltda.	Sao Paulo, Brazil	Brazil
Lithonia Lighting de Mexico S.A. de C.V.	Monterrey, Nuevo Leon	Mexico
Lithonia Lighting Servicios S.A. de C.V.	Monterrey, Nuevo Leon	Mexico
Luxfab Ltd.	Milton Keynes, England	United Kingdom
NSI Leasing, Inc.	Atlanta, Georgia	Delaware
Productos Lithonia Lighting de Mexico, S.A. de C.V.	Monterrey, Nuevo Leon	Mexico
Selig Company of Puerto Rico, Inc.	Atlanta, Georgia	Puerto Rico
Zep Belgium S.A.	Brussels, Belgium	Belgium
Zep Europe B.V.	Bergen op Zoom, Holland	Netherlands
Zep Industries, S.A. (formerly Zep S.A.)	Bern, Switzerland	Switzerland
Zep Industries Europa B.V.	Bergen op Zoom, Holland	Netherlands
Zep Italia S.r.l.	Aprilia, Italy	Italy
Zep Manufacturing B.V.	Bergen Op Zoom, Holland	Netherlands

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the registration statements of Acuity Brands, Inc. listed below of our report dated September 30, 2002, except for the last paragraph of Note 4, as to which the date is October 11, 2002, with respect to the consolidated financial statements and schedule of Acuity Brands, Inc. included in this Annual Report (Form 10-K) for the year ended August 31, 2002:

1. Registration Statement No. 333-74242 on Form S-8 (Acuity Lighting Group, Inc. Profit Sharing Retirement Plan for Salaried Employees, Zep Manufacturing Company 401(k) Plan, Selig Chemical Industries Retirement Plan, Acuity Brands, Inc. 401(k) Plan for Corporate Employees, Acuity Lighting Group, Inc. 401(k) Plan for Hourly Employees, Enforcer Products 401(k) Plan, Holophane Division of Acuity Lighting Group 401(k) Plan for Hourly Employees, Holophane Division of Acuity Lighting Group 401(k) Plan for Hourly Employees Covered by a Collective Bargaining Agreement).
2. Registration Statement No. 333-74246 on Form S-8 (Acuity Brands, Inc. Long-Term Incentive Plan, Acuity Brands, Inc. Employee Stock Purchase Plan, Acuity Brands, Inc. 2001 Nonemployee Directors' Stock Option Plan).

ERNST & YOUNG LLP

Atlanta, Georgia
November 8, 2002

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Kenyon W. Murphy and Vernon J. Nagel, and each of them individually, his true and lawful attorneys-in-fact (with full power of substitution and resubstitution) to act for him in his name, place, and stead in his capacity as a director or officer of Acuity Brands, Inc., to file a registrant's annual report on Form 10-K for the fiscal year ended August 31, 2002, and any and all amendments thereto, with any exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them individually, full power and authority to do and perform each and every act and thing requisite and necessary to be done in the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact or either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ L.M. Baker, Jr.

L.M. Baker, Jr.

Dated: November 11, 2002

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Kenyon W. Murphy and Vernon J. Nagel, and each of them individually, his true and lawful attorneys-in-fact (with full power of substitution and resubstitution) to act for him in his name, place, and stead in his capacity as a director or officer of Acuity Brands, Inc., to file a registrant's annual report on Form 10-K for the fiscal year ended August 31, 2002, and any and all amendments thereto, with any exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them individually, full power and authority to do and perform each and every act and thing requisite and necessary to be done in the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact or either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ Peter C. Browning

Peter C. Browning

Dated: November 11, 2002

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Kenyon W. Murphy and Vernon J. Nagel, and each of them individually, his true and lawful attorneys-in-fact (with full power of substitution and resubstitution) to act for him in his name, place, and stead in his capacity as a director or officer of Acuity Brands, Inc., to file a registrant's annual report on Form 10-K for the fiscal year ended August 31, 2002, and any and all amendments thereto, with any exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them individually, full power and authority to do and perform each and every act and thing requisite and necessary to be done in the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact or either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ John L. Clendenin

John L. Clendenin

Dated: November 11, 2002

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Kenyon W. Murphy and Vernon J. Nagel, and each of them individually, his true and lawful attorneys-in-fact (with full power of substitution and resubstitution) to act for him in his name, place, and stead in his capacity as a director or officer of Acuity Brands, Inc., to file a registrant's annual report on Form 10-K for the fiscal year ended August 31, 2002, and any and all amendments thereto, with any exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them individually, full power and authority to do and perform each and every act and thing requisite and necessary to be done in the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact or either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ Earnest W. Deavenport

Earnest W. Deavenport

Dated: November 11, 2002

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Kenyon W. Murphy and Vernon J. Nagel, and each of them individually, his true and lawful attorneys-in-fact (with full power of substitution and resubstitution) to act for him in his name, place, and stead in his capacity as a director or officer of Acuity Brands, Inc., to file a registrant's annual report on Form 10-K for the fiscal year ended August 31, 2002, and any and all amendments thereto, with any exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them individually, full power and authority to do and perform each and every act and thing requisite and necessary to be done in the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact or either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ Ray M. Robinson

Ray M. Robinson

Dated: November 11, 2002

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Kenyon W. Murphy and Vernon J. Nagel, and each of them individually, his true and lawful attorneys-in-fact (with full power of substitution and resubstitution) to act for him in his name, place, and stead in his capacity as a director or officer of Acuity Brands, Inc., to file a registrant's annual report on Form 10-K for the fiscal year ended August 31, 2002, and any and all amendments thereto, with any exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them individually, full power and authority to do and perform each and every act and thing requisite and necessary to be done in the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact or either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ Neil Williams

Neil Williams

Dated: November 11, 2002

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Kenyon W. Murphy and Vernon J. Nagel, and each of them individually, her true and lawful attorneys-in-fact (with full power of substitution and resubstitution) to act for her in her name, place, and stead in her capacity as a director or officer of Acuity Brands, Inc., to file a registrant's annual report on Form 10-K for the fiscal year ended August 31, 2002, and any and all amendments thereto, with any exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them individually, full power and authority to do and perform each and every act and thing requisite and necessary to be done in the premises, as fully to all intents and purposes as she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact or either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ Julia B. North

Julia B. North

Dated: November 11, 2002

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of Acuity Brands, Inc. (the "Corporation") for the fiscal year ended August 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the President and Chief Executive Officer of the Corporation, certifies that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ James S. Balloun

James S. Balloun
President and Chief Executive Officer
November 11, 2002

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of Acuity Brands, Inc. (the "Corporation") for the fiscal year ended August 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Executive Vice President and Chief Financial Officer of the Corporation, certifies that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Vernon J. Nagel

Vernon J. Nagel
Executive Vice President and
Chief Financial Officer
November 11, 2002