LORAL SPACE & COMMUNICATIONS INC.
Form 10-K
March 15, 2011

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010
OR

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

Commission file number 1-14180
LORAL SPACE & COMMUNICATIONS INC.
(Exact name of registrant specified in the charter)
Jurisdiction of incorporation: Delaware
IRS identification number: 87-0748324
600 Third Avenue
New York, New York 10016
(Address of principal executive offices)
Telephone: (212) 697-1105
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $.01 par value	NASDAQ

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

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o **No** þ

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

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 þ No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

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

At March 1, 2011, 21,149,598 shares of the registrant s voting common stock and 9,505,673 shares of the registrant s non-voting common stock were outstanding.

As of June 30, 2010, the aggregate market value of the common stock, the only common equity of the registrant currently issued and outstanding, held by non-affiliates of the registrant, was approximately $520,752,485

Indicate by a check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes þ No o

Documents incorporated by reference are as follows:

Document	**Part and Item Number of Form 10-K into which incorporated**
Loral Notice of Annual Meeting of Stockholders and Proxy Statement for the Annual Meeting of Stockholders to be held May 24, 2011	Part II, Item 5(d) Part III, Items 11 through 14

LORAL SPACE AND COMMUNICATIONS INC.
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For the Year Ended December 31, 2010

PART I

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PART I

Item 1. ***Business***

THE COMPANY

Overview

Loral Space & Communications Inc., together with its subsidiaries (Loral , the Company , we , our and us), is a l satellite communications company engaged in satellite manufacturing with ownership interests in satellite-based communications services. The term Parent Company is a reference to Loral Space & Communications Inc., excluding its subsidiaries.

Loral has two segments:

Satellite Manufacturing:

Our subsidiary, Space Systems/Loral, Inc. (SS/L), designs and manufactures satellites, space systems and space system components for commercial and government customers whose applications include fixed satellite services (FSS), direct-to-home (DTH) broadcasting, mobile satellite services (MSS), broadband data distribution, wireles telephony, digital radio, digital mobile broadcasting, military communications, weather monitoring and air traffic management.

Satellite Services:

Loral participates in satellite services operations principally through its 64% economic interest in Telesat Holdings Inc. (Telesat Holdco), which owns Telesat Canada (Telesat), a leading global FSS provider, with industry leading backlog, and one of only three FSS providers operating on a global basis. Telesat owns and leases a satellite fleet that operates in geosynchronous earth orbit approximately 22,000 miles above the equator. In this orbit, satellites remain in a fixed position relative to points on the earth s surface and provide reliable, high-bandwidth services anywhere in their coverage areas, serving as the backbone for many forms of telecommunications.

Segment Overview

Satellite Manufacturing

SS/L is a designer, manufacturer and integrator of powerful satellites and satellite systems for commercial and government customers worldwide. SS/L s design, engineering and manufacturing capabilities have allowed it to develop a large portfolio of highly engineered, mission-critical satellites and secure a strong industry presence. This position provides SS/L with the ability to produce satellites that meet a broad range of customer requirements for broadband internet service to the home, mobile video and internet service, broadcast feeds for television and radio distribution, phone service, civil and defense communications, direct-to-home television broadcast, satellite radio, telecommunications backhaul and trunking, weather and environment monitoring and air traffic control. In addition, SS/L has applied its design and manufacturing expertise to produce spacecraft subsystems, such as batteries for the International Space Station, and to integrate government and other add-on missions on commercial satellites, which are referred to as hosted payloads.

As of December 31, 2010, SS/L had $1.6 billion in backlog for 20 satellites for customers including Intelsat Global S.A., SES S.A., Telesat Holdings Inc., Hispasat, S.A., EchoStar Corporation, Sirius-XM Satellite Radio, TerreStar Corporation, Asia Satellite Telecommunications Co. Ltd., Hughes Network Systems, LLC, ViaSat, Inc., Eutelsat/ictQatar, DIRECTV, Satélites Mexicanos, S.A. de C.V. and Asia Broadcast Satellite.

Since SS/L s inception, it has delivered more than 240 satellites, which have achieved more than 1,700 years of cumulative on-orbit service. SS/L s satellite platform accommodates some of the world s highest-power payloads for television, radio and multimedia broadcast. SS/L is the only manufacturer to have produced to date high-power commercial satellites greater than 18-kW at end-of-life, or EOL. In addition, SS/L is the first manufacturer to utilize a commercial ground-based beam forming, or GBBF, system, which allows ground system upgrades to adjust for changes in service usage. For the period from 2005 through December 31, 2010, SS/L-built satellites have had no satellite hardware operational failures resulting in insurance claim payments.

Satellite demand is driven by fleet replacement cycles, increased video, internet and data bandwidth demand and new satellite applications. SS/L expects its future success to derive from maintaining and expanding its share of the satellite construction contracts based on engineering, technical and manufacturing leadership; its value proposition and record of reliability; the increased demand for new applications requiring high power and capacity satellites such as HDTV, 3-D TV and broadband; and SS/L s expansion of governmental contracts based on its record of reliability and experience with fixed-price contract manufacturing. We also expect SS/L to benefit from the increased revenues from larger and more complex satellites. As such, increased revenues as well as system and supply chain management improvements should enable SS/L to continue to improve its profitability.

SS/L products span the entire commercial market segment and SS/L s customers include satellite service operators across all satellite-based applications. SS/L s highly flexible satellite platform accommodates a broad range of applications such as regional and spot-beam technology and hybrid systems that maximize the value of orbital slot locations. As a result, SS/L is well-positioned for the next stage of growth, including (i) additional satellites for existing customers, (ii) satellites for new customers, both established and those developing new services and (iii) government satellites, both U.S. government, or USG, and non-USG, as well as government hosted payloads and space subsystems.

Market and Competition

SS/L participates in the highly competitive commercial satellite manufacturing industry principally on the basis of superior customer relationships, technical excellence, reliability and pricing. Other competitors for satellite manufacturing contracts include Boeing, Lockheed Martin and Orbital Sciences in the U.S., Thales Alenia Space and EADS Astrium in Europe and Mitsubishi Electric Corporation in Japan. SS/L s continued success depends on its ability to provide highly reliable satellites on a cost-effective and timely basis. SS/L may also face competition in the future from emerging low-cost competitors in India, Russia and China. The number of satellite manufacturing contracts awarded varies annually and is difficult to predict. For example, based on readily available industry information, we believe that, while only two contracts for mid- and high-power (8 kW or higher) commercial satellites were awarded worldwide in 2002, there were 17 and 21 contracts awarded in 2010 and 2009, respectively. The current economic environment may adversely affect the satellite market in the near-term. While we expect the replacement market to be reliable over the next year, given the current credit crisis, potential customers that are highly leveraged or in the development stage may not be able to obtain the financing necessary to purchase satellites.

Satellite Manufacturing Performance(1)

	Year ended December 31,		
	2010	2009	2008
	(In millions)		
Total segment revenues	$ 1,165	$ 1,008	$ 881
Eliminations	(6)	(15)	(12)
Revenues from satellite manufacturing as reported	$ 1,159	$ 993	$ 869
Segment Adjusted EBITDA before eliminations	$ 143	$ 91	$ 45

(1)

See Consolidated Operating Results in Management s Discussion and Analysis of Financial Condition and Results of Operations for significant items that affect comparability between the periods presented (see Note 15 to the Loral consolidated financial statements for the definition of Adjusted EBITDA).

Total SS/L assets, located primarily in California, were $921 million and $864 million as of December 31, 2010 and 2009, respectively. The increase is primarily due to growth in gross orbital receivables of $71 million in 2010. Total SS/L assets were $799 million as of December 31, 2008. Backlog at December 31, 2010 was $1.6 billion. This included $219 million of backlog for the construction of Telstar 14R, Nimiq 6 and Anik G1 for Telesat and the intercompany portion of ViaSat-1. Backlog at December 31, 2009 was $1.6 billion. This included $225 million of backlog for the construction of Telstar 14R and Nimiq 6 for Telesat and the intercompany portion of ViaSat-1. It is expected that approximately 64% of the backlog as of December 31, 2010, will be recognized as revenues during 2011. During 2010, revenues from EchoStar Corporation, Hughes Network Systems, LLC, Intelsat Global S.A., SES S.A. and Telesat Holdings Inc. were each individually greater than 10% of our total revenues.

Satellite Services

As of December 31, 2010, Telesat had 12 in-orbit satellites and three satellites under construction, one of which is 100% leased for at least the design life of the satellite. Telesat provides video distribution and DTH video, as well as end-to-end communications services using both satellite and hybrid satellite-ground networks.

Telesat categorizes its satellite services operations into broadcast, enterprise services and consulting and other, as follows:

Broadcast:

DTH. Both Canadian DTH service providers (Bell TV and Shaw Direct) use Telesat s satellites as a distribution platform for their services, delivering television programming, audio and information channels directly to customers homes. In addition, Telesat s Anik F3 and Nimiq 5 satellites are used by EchoStar (Dish Network) for DTH services in the United States.

Video Distribution. Major broadcasters, cable networks and DTH service providers use Telesat satellites for the full-time transmission of television programming. Additionally, certain broadcasters and DTH service providers bundle value-added services that include satellite capacity, digital encoding of video channels and uplinking and downlinking services to and from Telesat satellites and teleport facilities. Telstar 18 delivers video distribution and contribution throughout Asia and offers connectivity to the U.S. mainland via Hawaiian teleport facilities; Telstar 12 is also used to transmit television services. In both Brazil and Chile, Telesat provides video distribution services on Telstar 14/Estrela do Sul.

Occasional Use Services. Occasional use services consist of satellite transmission services for the timely broadcast of video news, sports and live event coverage on a short-term basis enabling broadcasters to conduct on-the-scene transmissions using small, portable antennae.

Enterprise Services:

Data networks in North America and the related ground segment and maintenance services supporting these networks. Telesat operates very small aperture terminal, or VSAT, networks in North America, managing thousands of VSAT terminals at customer sites. For some of these customers Telesat offers end-to-end services including installation and maintenance of the end user terminal, maintenance of the VSAT hub, and provision of satellite capacity. Other customers may be provided a subset of these services. Examples of North American data network services include point of sale services for customers in Canada and communications services to remote locations for the oil and gas industry.

International Enterprise Networks. Telesat provides Internet Protocol-based terrestrial extension services that allow enterprises to reach multiple locations worldwide many of which cannot be connected via terrestrial means. In addition, these managed services also enable multi-cast and broadcast functionality, as with traditional video broadcast distribution, which takes full advantage of satellite s one to many attributes. These services are delivered to enterprises whose headquarters are typically in the United States or Europe through both terrestrial partners and directly.

Ka-band Internet Services. Telesat provides Ka-band, two-way broadband Internet services in Canada through Barrett Xplore Inc. and other resellers, and Ka-band satellite capacity to WildBlue which uses it to provide services in the United States.

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Telecommunication Carrier Services. Telesat provides satellite capacity and end-to-end services for data and voice transmission to telecommunications carriers located throughout the world. These services include (i) connectivity and voice circuits to remote locations in Canada for customers such as Bell Canada and NorthwesTel and (ii) space segment capacity and terrestrial facilities for Internet backhaul and access, GSM backhaul, and services such as rural telephony to carriers around the world.

Government Services. The United States Government is the largest single consumer of fixed satellite services in the world and a significant user of Telesat s international satellites. Over the course of several years, Telesat has implemented a successful strategy to sell through government service integrators, rather than directly to United States Government agencies. Satellite services are also provided to the Canadian Government, including a variety of services from a maritime network for a Canadian Government entity to protected satellite capacity to the Department of National Defense for the North Warning System.

Consulting & Other:

Consulting operations allow for increased operating efficiencies by leveraging Telesat s existing employees and facility base. With over 40 years of engineering and technical experience, Telesat is a leading consultant in establishing, operating and upgrading satellite systems worldwide, having provided services to businesses and governments in over 35 countries across six continents. In 2010, the international consulting business provided satellite-related services in approximately 20 countries.

Telesat is the fourth largest FSS operator in the world and the largest in Canada, with a strong and growing business. It has a leading position as a provider of satellite services in the North American video distribution market. Telesat provides services to both of the major DTH providers in Canada, Bell TV and Shaw Direct, which together have approximately 2.9 million subscribers, as well as to EchoStar (Dish Network) in the United States, which has over 14 million subscribers. Its international satellites are well positioned in emerging, high growth markets and serve high value customers in those markets. Telstar 11N provides service to American, European and African regions and aeronautical and maritime markets of the Atlantic Ocean Region. Telstar 12 provides intercontinental connectivity from the Americas to the Middle East. Telstar 14/Estrela do Sul offers high powered coverage of the Americas, the Gulf of Mexico, the Caribbean and the North Atlantic Ocean Region (NAOR). Telstar 18 delivers video distribution and contribution throughout Asia and offers connectivity to the US mainland via Hawaiian teleport facilities. Telesat s current enterprise services customers include leading telecommunications service providers as well as a range of network service providers and integrators, which provide services to enterprises, governments and international agencies and multiple ISPs.

Telesat offers its broad suite of satellite services to more than 400 customers worldwide, which include some of the world s leading television broadcasters, cable programmers, DTH service providers, ISPs, telecommunications carriers, corporations and government agencies. Over 40 years of operation, Telesat has established long-term, collaborative relationships with its customers and has developed a reputation for creating innovative solutions and providing services essential for its customers to reach their end users. Telesat s customers represent some of the strongest and most financially stable companies in their respective industries. These customers frequently commit to long-term contracts for its services, which enhances the predictability of its future revenues and cash flows and supports its future growth.

Telesat s North American Broadcast and Enterprise Services customer service contracts are typically multi-year in duration and, in the past, Telesat has successfully contracted all or a significant portion of a satellite s capacity prior to commencing construction.

Market and Competition

Telesat is one of three global FSS operators. Telesat competes against other global, regional and national FSS operators and, for certain services and in certain regions with providers of terrestrial-based communications services.

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Fixed Satellite Operators

The other two global FSS operators are Intelsat Global S.A. (Intelsat) and SES S.A. (SES). Telesat also competes with a number of nationally or regionally focused FSS operators around the world, including Eutelsat S.A. (Eutelsat), the third largest FSS operator in the world.

Intelsat, SES and Eutelsat are each substantially larger than Telesat in terms of both the number of satellites they have in-orbit as well as their revenues. Telesat believes that Intelsat and its subsidiaries together have a global fleet of over fifty satellites, that SES and its subsidiaries have a fleet of over forty satellites, and that Eutelsat and its subsidiaries have a fleet of over twenty satellites and additional capacity on another three satellites. Due to their larger sizes, these operators are able to take advantage of greater economies of scale, may be more attractive to customers, and may (depending on the specific satellite and orbital location in question) have greater flexibility to restore service to their customers in the event of a partial or total satellite failure. In addition, their larger sizes may enable them to devote more resources, both human and financial, to sales, operations, product development and strategic alliances and acquisitions.

Regional and domestic providers: Telesat also competes against regional FSS operators, including:

- in North America: Ciel, ViaSat/WildBlue, HNS, EchoStar, Satmex and Hispamar;
- in Europe, Middle East, Africa: Eutelsat, Arabsat, Nilesat, HellasSat, Turksat and Spacecom;
- in Asia: AsiaSat, Measat, Thaicom, APT, PT Telkom, Optus and Asia Broadcast Satellite; and
- in Latin America: Satmex, Star One, Arsat, HispaSat and Hispamar.

A number of other countries have domestic satellite systems against which Telesat competes in those markets. In Canada, Telesat s largest market, Ciel, whose majority equity shareholder is SES, has begun operations in the DBS band, successfully launched Ciel 2 in 2008, and in February 2009 announced that it had begun providing commercial service on Ciel 2 at the 129° WL orbital location. In June 2008, Industry Canada granted Ciel six approvals in principle to develop and operate satellite services in other frequency bands and orbital positions.

The Canadian Government opened Canadian satellite markets to foreign satellite operators as part of its 1998 World Trade Organization commitments to liberalize trade in basic telecommunications services. As of February 2011, approximately 74 non-Canadian FSS satellites are listed as having been approved by Industry Canada for use in Canada. Three of these are Telesat satellites licensed by other administrations. The growth in satellite service providers using or planning to use Ka-band, including ViaSat/WildBlue, Eutelsat, HNS, Yahsat and others, will result in increased competition.

Terrestrial Service Providers

Providers of terrestrial-based communications services compete with satellite operators. Increasingly, in developed and developing countries alike, governments are providing funding and other incentives to encourage the expansion of terrestrial networks resulting in increased competition for FSS operators.

Consulting Services

The market for satellite consulting services is generally comprised of a few companies qualified to provide services in specific areas of expertise. Telesat s competitors are primarily United States- and European-based companies.

Satellite Fleet & Ground Resources

As of December 31, 2010, Telesat had 12 in-orbit satellites and three satellites under construction, one of which is 100% leased for at least the design life of the satellite.

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Telesat also has ground facilities located around the world, providing both control services to its satellite fleet, as well as to the satellites of other operators as part of its consulting services offerings. It has two control centers located in Ottawa, Ontario and Allan Park, Ontario. A third control center, in Rio de Janeiro, Brazil is used to operate Telstar 14/Estrela do Sul. In addition, Telesat leases other technical facilities that provide customers with a host of teleport and hub services.

Telesat s North American focused fleet is comprised of three owned FSS satellites, Anik F1-R, Anik F2 and Anik F3, and four owned direct broadcast services, or DBS, satellites, Nimiq 1, Nimiq 2, Nimiq 4 and Nimiq 5. Telesat s international fleet is comprised of five owned FSS satellites, Anik F1, Telstar 11N, Telstar 12, Telstar 14/Estrela do Sul and Telstar 18.

The table below summarizes selected data relating to Telesat s owned and leased in-orbit satellites as of December 31, 2010**:**

	Orbital Location Regions Covered	Launch Date	Manufacturer s End-of-Service Life	Expected End-of-Orbital Maneuver Life[1]	Transponders[1] C-band[2]	Ku-band[2]	Ka-band[2]	Model[3]
Nimiq 1	91.1° WL Canada, Continental United States	May 1999	2011	2024		32@24MHz		A2100 AX (Lockheed Martin)
Nimiq 2[4]	91.1° WL Canada, Continental United States	December 2002	2015	2021		11@24MHz		A2100 AX (Lockheed Martin)
Nimiq 4	82° WL Canada	September 2008	2023	2027		32@24 MHz	8@54 MHz	E3000 (EADS Astrium)
Nimiq 5	72.7° WL Canada, Continental United States	September 2009	2024	2035		32@24MHz		SS/L 1300
Anik F1[5]	107.3° WL South America	November 2000	2016	2018	12@36MHz	16@27MHz		BSS702 (Boeing)
Anik F2	111.1° WL Canada, Continental United States	July 2004	2019	2027	24@36MHz	32@27MHz	45@56/112 MHz 6@500MHz 1@56/112MHz	BSS702 (Boeing)
Anik F1R[3]	107.3° WL North America	September 2005	2020	2023	24@36MHz	32@27MHz	2@20MHz	E3000 (EADS Astrium)
Anik F3	118.7° WL Canada, Continental United States	April 2007	2022	2026	24@36MHz	32@27MHz	2@75MHz (500MHz)	E3000 (EADS Astrium)
Telstar 11N	37.55° WL North and Central America,	February 2009	2024	2026		39@27/54MHz		SS/L 1300

	Europe, Africa and the maritime Atlantic Ocean region						
Telstar 12(6)	15° WL Eastern United States, SE Canada, Europe, Russia, Middle East, South Africa, portions of South and Central America	October 1999	2012	2016		37@54MHz	SS/L 1300
Telstar 14/Estrela do Sul	63° WL Brazil And portions of Latin America, North America, Atlantic Ocean	January 2004	2019	2011		9@72MHz 9@36MHz 2@28MHz 1@56MHz	SS/L 1300
Telstar 18(7)	138° EL India, South East Asia, China, Australia And Hawaii	June 2004	2017	2018	**18**@36MHz 1@54MHz	**16**@54MHz 1@40MHz	SS/L 1300

(1) Telesat s current estimate of when each satellite will be decommissioned, taking account of anomalies and malfunctions the satellites have experienced to date and other factors such as remaining fuel levels, consumption rates and other available engineering data. These estimates are subject to change and it is possible that the actual orbital maneuver life of any of these satellites will be shorter than Telesat currently anticipates. Further, it is anticipated that the payload capacity of each satellite may be reduced prior to the estimated end of commercial service life. For example, Telesat currently anticipates that it will need to commence the turndown of transponders on Anik F1, as a result of further degradation in available power.

(2) Includes the DBS Ku-Band, extended C-band and extended Ku-band in certain cases.

(3) Telesat does not provide service in the L-band. The L-band payload is licensed to Telesat s customer by the FCC.

(4) It is expected that the available capacity in Nimiq 2 will be reduced over time as a result of power system limitations due to malfunctions affecting available power. The number of Ku-band transponders stated above refers to the number of active saturated Ku-band transponders as of December 31, 2010.

(5) Anik F1 s orbital maneuver life is constrained by power availability.

(6) Telstar 12 has 38 54 MHz transponders. Four of these transponders are leased to Eutelsat to settle coordination issues and Telesat leases back three of these transponders.

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(7) Includes 16.6 MHz of C-band capacity provided to the Government of Tonga in lieu of a cash payment for the use of the orbital location. The satellite carries additional transponders (the APT transponders), not shown on the table, as to which APT has a prepaid lease through the end of life of the satellite in consideration for APT s funding a portion of the satellite s cost. This transaction was accounted for as a sales-type lease, because substantially all of the benefits and risks incident to the ownership of the leased transponders were transferred to APT. Telesat has agreed with APT among other things that if Telesat is able to obtain the necessary approvals and licenses from the U.S. government under U.S. export laws, it would transfer title to the APT transponders on Telstar 18 to APT, as well as a corresponding interest in the elements on the satellite that are common to or shared by the APT transponders and the Telesat transponders. As required under its agreement with APT, Telesat acquired two transponders from APT for an additional payment in August 2009.

In addition, Telesat has the rights to the following satellite capacity to end of life of these satellites:

Satmex 5: Three-36MHz Ku-band transponders;

Satmex 6: Two-36MHz C-band transponders; Two-36MHz Ku-band transponders; and

Agila 2 (Mabuhay): Two-36MHz C-band transponders and five and one half 36 MHz Ku-band transponders

The table below summarizes selected data relating to Telesat s satellites under construction as of December 31, 2010:

	Telstar 14R/Estrela do Sul 2	**Nimiq 6**	**Anik G1**
Orbital Location	63° WL	TBD	107.3° WL
Regions Covered	South America, Continental US, Andean Region, North and Mid-Atlantic Ocean Region	Canada, Continental US	Canada, Continental US, South America, Pacific Ocean
Planned In-Service Date	Second half of 2011	Mid-2012	Second half of 2012
Manufacturer s End-of-Service-Life	2026	2027	2027
Customer Committed Capacity	N/A	100%	35%
Transponders:			
Ku-band	58 @36 MHz	32 @ 24 MHz	16 @ 27 MHz 12 @ 36 MHz
C-band			24 @ 36 MHz
X-band			3 @ 36 MHz
Model	SS/L 1300	SS/L 1300	SS/L 1300

Satellite Services Performance[(1)]

Until October 31, 2007, the operations of our satellite services segment were conducted through Loral Skynet Corporation (Loral Skynet), which leased transponder capacity to commercial and government customers for video distribution and broadcasting, high-speed data distribution, Internet access and communications, and provided managed network services to customers using a hybrid satellite and ground-based system. It also provided professional services such as fleet operating services to other satellite operators. At October 31, 2007, Loral Skynet had four in-orbit satellites and had one satellite under construction at SS/L.

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On October 31, 2007, Loral and its Canadian partner, Public Sector Pension Investment Board (PSP), through Telesat Holdco, a newly-formed joint venture, completed the acquisition of Telesat from BCE Inc. (BCE). In connection with this acquisition, Loral transferred on that same date substantially all of the assets and related liabilities of Loral Skynet to Telesat. We refer to this acquisition and transfer of assets and liabilities of Loral Skynet as the Telesat transaction. Loral holds a 64% economic interest and a $33^1/_3$% voting interest in Telesat Holdco (see Note 6 to the Loral consolidated financial statements). We use the equity method of accounting for our investment in Telesat Holdco.

	Year ended December 31,					
		2010		2009		2008
			(In millions)			
Revenue:						
Total segment revenues	$	797	$	692	$	685
Affiliate eliminations[2]		(797)		(692)		(685)
Revenues from satellite services as reported	$		$		$	
Adjusted EBITDA:						
Total segment Adjusted EBITDA	$	607	$	488	$	436
Affiliate eliminations[2]		(607)		(488)		(427)
Adjusted EBITDA from satellite services after eliminations	$		$		$	9

(1) See Consolidated Operating Results in Management s Discussion and Analysis of Financial Condition and Results of Operations for significant items that affect comparability between the periods presented (see Note 15 to the consolidated financial statements for the definition of Adjusted EBITDA).

$3,000 on our working capital line, $19,000 on equipment loans, and approximately $3,600 on other miscellaneous notes.

Interest income earned during the year ended December 31, 2002 decreased $48,047 or 67% to $23,275 from $71,322 earned during the same period in 2001. The decline in interest income was the result in lower average cash balances during 2002 as compared to 2001.

Cumulative Effect of Accounting Change. On January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 15, 2001. In accordance with SFAS No. 142, we completed our transitional impairment testing of intangible assets during the second quarter of fiscal 2002. Subsequent to the first quarter of fiscal 2002, with the assistance of a third-party valuation firm, we finalized the testing of goodwill subject to SFAS 142. The testing resulted in a write-down of recorded goodwill in the amount of $4,103,872, which was recorded as a cumulative effect of a change in an accounting principle.

Preferred Stock Dividends. There were three series of our convertible preferred stock issued and outstanding at various times during 2001 and 2002, including our Series B Convertible Preferred Stock ("Series B Preferred Stock") issued during October 2000 and converted to common stock in June 2001, our Series A Convertible Preferred Stock ("Series A Preferred Stock"), which was issued during September 2001 and November 2001, and our Series C Convertible Preferred Stock ("Series C Preferred Stock"), which was issued during June 2002.

On October 17, 2000, we raised $2 million through the issuance of our Series B Preferred Stock. On June 15, 2001 the holder of the Series B Preferred Stock elected to convert all of the shares Series B Preferred Stock into common stock. The dividend accrued on the Series B Preferred Stock from the issuance date of October 17, 2000 through the conversion date of June 15, 2001, totaled $106,082, of which $73,206 was attributable to 2001. We elected to pay the accrued dividend through the issuance of additional shares of Series B Preferred Stock, which the holder converted to common stock on the conversion date. The shares of Series B Preferred Stock received as payment of the accrued dividend were considered to have a beneficial conversion feature because they were convertible into shares of common stock at a price below the market price on the date of issuance, which was deemed to be equivalent to a non-cash preferred dividend. As a result, we recorded a deemed dividend of $92,024 on the date of issuance of the dividend shares.

On September 7, 2001 we received $16 million of gross proceeds through the issuance of our Series A Preferred Stock (See, Footnote 10 to "Item 11 Security Ownership of Certain Beneficial Owners and Management"). On November 29, 2001, we received an additional $3 million of gross proceeds through the sale of additional shares of Series A Preferred Stock (See, Footnote 11 to "Item 11 Security Ownership of Certain Beneficial Owners and Management"). The Series A Preferred Stock is considered to have a beneficial conversion feature because it permits the holders to convert their shares of Series A Preferred Stock into shares of common stock at a price, which on the date of issuance, was lower than the market price for the common stock. The value of this beneficial conversion feature, along with the value of the common stock and warrants issued as part of these transactions, was considered to be a non-cash deemed dividend, the value of which was capped at the $19 million of gross proceeds.

The Series A Preferred Stock accrues a dividend at the rate of 10%, which is payable during the first three years following initial issuance at our option in cash or additional shares of Series A Preferred Stock. We accrued dividends on the shares of Series A Preferred Stock totaling $669,933 and $2,041,992 during 2001 and 2002, respectively, which we elected to pay by issuing additional shares of Series A Preferred Stock. We recognized a deemed dividend of $283,776 in 2001 and $495,589 in 2002, due to the beneficial conversion feature associated with the additional shares of Series A Convertible Preferred Stock that we issued in satisfaction of the accrued dividends.

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The Series C Preferred Stock accrues a dividend at the rate of 10%, which is payable during the first three years following initial issuance at our option in cash or additional shares of Series C Preferred Stock. During 2002 we accrued dividends on the shares of Series C Preferred Stock of $116,426, which we elected to pay by issuing additional shares of Series C Preferred Stock. We recognized a deemed dividend of $12,403 in 2002, due to the beneficial conversion feature associated with the additional shares of Series C Convertible Preferred Stock that we issued in satisfaction of the accrued dividends.

The dividend expense recognized during 2002 and 2001 is comprised of the following:

	Year ended December 31,	
	2002	2001
Deemed dividend associated with beneficial conversion feature of Series A Convertible Preferred Stock	$	$ 19,000,000
Accrual of Dividend on Series A Convertible Preferred	2,041,992	669,933
Deemed dividend associated with beneficial conversion price on shares issuable in satisfaction of Series A Convertible Preferred dividend	495,589	283,776
Accrual of Series B Preferred dividend		73,206
Deemed dividend associated with beneficial conversion price on shares issued in satisfaction of Series B Preferred dividend		92,024
Deemed dividend associated with beneficial conversion feature of Series C Convertible Preferred Stock dividend	1,444,697	
Accrual of Series C Preferred dividend	116,426	
Deemed dividend associated with beneficial conversion price on shares issued in satisfaction of Series C Preferred dividend	12,403	
Total	$ 4,111,107	$ 20,118,939

Liquidity and Capital Resources

During the twelve-month period ended December 31, 2002, we incurred a net loss before the cumulative effect of an accounting change of $7.07 million and used $6.88 million of cash for operating activities. Primarily as a result of our continuing losses and lack of liquidity our independent certified public accountants modified their opinion on our December 31, 2002 Consolidated Financial Statement to contain a paragraph wherein they expressed a substantial doubt about our ability to continue as a going concern. We have taken steps to improve our current liquidity and provide the growth capital necessary to fund our plan for future growth. Our efforts to raise additional capital are discussed below.

As of December 31, 2002, we had cash and cash equivalents of $1,555,904, compared to cash and cash equivalents of $5,486,073 on December 31, 2001. Our debt obligations as of December 31, 2002 consisted of a mortgage in the amount of $714,000 on our facility in Elk Grove Village Illinois, an equipment loan of $340,500 and vehicle loans totaling $35,291. In addition we had a $2 million line of credit with $500,000 outstanding as of December 31, 2002.

The Company's principal cash requirements are for operating expenses, including employee costs, the costs related to research and development, advertising costs, the cost of outside services including

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those providing accounting, legal, engineering and electrical contracting services, and the funding of inventory and accounts receivable, and capital expenditures. The Company has financed its operations since inception primarily through the private placement of its common stock and preferred stock.

Net cash decreased $3,930,169 during the year ended December 31, 2002 while net cash increased $4,856,637 during the year ended December 31, 2001. Operating activities consumed $6,880,511 and $9,839,575 during the twelve-month periods ended December 31, 2002 and December 31, 2001, respectively. Cash used to fund the net loss, calculated at the net loss less non-cash charges declined $2,151,395 in 2002 to $6,183,865 from $8,335,260 in 2001. The improvement in cash used to fund the net loss is primarily due to a $2.1 million reduction in SG&A expense, and a $246,000 reduction in cash interest expense.

During 2002 we used $696,646 of our cash to fund changes in working capital, as compared to using $1,504,315 in 2001. Increases in our accounts receivable consumed $252,138 during 2002 as compared to consuming $138,758 in 2001. The Energy Technology segment of our business is responsible for most of the increase in our accounts receivable. This segment generally experiences a slower turn on its receivables than our other businesses, thus receivables are expected to grow faster than consolidated revenue as the Energy Technology segment becomes a larger portion of the total revenue. Increases in inventories consumed cash of $941,584 in 2002 as compared to generating cash $370,719 in 2001. Most of this increase in inventory in 2002 is related to product shipped to three large EnergySaver customers for whom all of our revenue recognition requirements have not been satisfied. Once all the criteria revenue recognition are met we will move the product from inventory to cost of goods sold. Inventory declined in 2001 as we shifted to a "make to order" rather than a "make to inventory" process in the manufacture of our EnergySaver products. Increases in accounts payable and accruals generated cash of $972,034 during 2002, as compared to consuming $2,295,643 during 2001. During 2001, we used some of the cash raised through the issuance of our preferred stock to pay overdue payables and to satisfy a portion of our accrued expenses. The increase in payables and accruals in 2002 is in part due to the increase in sales activities in the Energy Technology and Building Automation Controls segments and partially due to some extended payment terms negotiated with a supplier to Switchboard Apparatus relative to a large government project that Switchboard is supplying. Deferred revenue declined $487,597 in 2002 and increased $387,596 during 2001. During 2001, we invoiced several customers for product and services for which we had not satisfied all of our revenue recognition criteria (see note 3 to the consolidated financial statements for a summary of our revenue recognition policies), accordingly we did not recognize the amounts invoiced as revenue, but instead recorded them as deferred revenue. During 2002, we completed everything necessary for us to recognize the revenue on these invoices.

Investing activities consumed cash of $6,987 during 2002 as compared to consuming cash of $69,487 during 2001. During 2002 we spent $17,487 on new equipment, but this use of cash was partially offset by $10,500 generated through the sale of equipment we no longer used. During 2001 we spent $121,586 on new equipment, but generated $52,099 through the sale of equipment that we no longer needed.

Financing activities generated cash of $2,957,329 and $14,765,699 during 2002 and 2001, respectively. During 2002 we issued preferred and common stock which generated net proceeds of $2,800,257. We also refinanced the mortgage on our building and our equipment loan, generating $22,000 after the repayment of the existing loans, and borrowed $500,000 on our line of credit. Offsetting these sources of cash were scheduled payments of $147,000 on our long-term debt and $219,067 on the Marino Sellers note. During 2002 we also received $1,300 from one of our 10% stockholders, which represented the short-swing profit inadvertently earned when he purchase shares of our stock within six months of selling shares, which is a violation of section 16(b) of the Securities Act of 1934.

During 2001, we raised $18.2 million in gross proceeds through the issuance of our Series A Convertible Preferred Stock, of which $3.2 million was raised through the issuance of three Senior

Subordinated Promissory Notes (which Notes were subsequently converted into shares of our Series A Convertible Preferred Stock) and $15.0 million through the issuance of our Series A Convertible Preferred Stock. We also refinanced some equipment loans, raising an additional $551,414. A portion of these funds was used to pay costs associated with raising the funds and to repay existing obligations. The costs of issuance attributable to the Senior Subordinated Notes and the Series A Convertible Preferred Stock totaled $546,511. Funds used to retire or repay existing debt included $1,356,660 for the note payable to distributors, $852,200 to pay down our lines of credit, $449,628 to retire an outstanding equipment loan with Oxford Bank, $489,647 to pay down amounts owed the sellers of Marino Electric, $75,000 for scheduled payments on a new equipment loan with American National Bank, $19,962 for scheduled mortgage payments on our Elk Grove Village facilities, and $9,454 of scheduled payments on various auto loans.

On May 29, 2002 we closed on a credit facility with American Chartered Bank. This facility included a $400,000 equipment loan, a mortgage on our facility in Elk Grove Village Illinois in the amount of $735,000, and a $2,000,000 revolving line of credit. The revolving credit line replaced the expiring credit line we had with American National Bank. The American Chartered Bank revolver has a term of one year, with an interest rate equal to the prime rate plus $^{1}/_{4}$%, and is secured by accounts receivable. As of December 31, 2002 the unused portion of the revolver was $1.5 million and there was $225,000 of borrowing base availability. The $400,000 equipment loan has a term of two years, with an interest rate equal to the prime plus $^{1}/_{2}$% and is secured by a blanket lien on all of our assets. The proceeds from the equipment loan were used to repay an equipment loan with American National Bank. The mortgage has an initial term of two years, with an interest rate equal to the prime plus $^{1}/_{2}$%, is secured by a first mortgage lien on the building and requires monthly payments of $3,000 plus interest. The proceeds from the mortgage were used to repay an existing mortgage we had with CIB Bank. The new loan agreements contain covenants that require us to maintain a certain level of tangible net worth and working capital. As of December 31, 2002 we were in violation of the tangible net worth covenant, but American Chartered Bank waived the covenant violation.

Our ability to continue the development, manufacturing and the expansion of sales of our products, including the EnergySaver and the GlobalCommander, will require the continued commitment of significant funds. The actual timing and amount of our future funding requirements will depend on many factors, including the amount and timing of future revenues, the level and amount of product marketing and sales efforts, the magnitude of research and development, our ability to improve margins and the cost of any additional manufacturing equipment we may require to efficiently produce our products.

During the last two years we have raised $21.2 million through the issuance of shares of our common and preferred stock, which has allowed us to continue to execute our business plan without any interruptions. Of the funds raised during the past two years, $16.7 million has been consumed by operating activities, either used to fund our losses or working capital requirements. Another $4.3 million has been used to repay debt or has been consumed in the support of our capital raising activities. As of December 31, 2002 our cash balance was $1,555,904. Largely as a result of our current liquidity our management has identified the following priorities it must achieve if the Company is to continue as a going concern:

- Continue to increase sales of EnergySavers. This is our most profitable product and represents the greatest potential for growth of any the product we sell. As demonstrated in 2002, we can increase our production of EnergySavers with very little increase in our manufacturing costs, thus as our sales volume increases our profitability should increase as well. We have a number of opportunities that we are currently pursuing which if we are successful in closing and implementing should contribute significantly to our goal of increasing the sales of EnergySavers. Unfortunately, as is true in all sales opportunities, there is still a risk that some or all of these opportunities will not result in a sale.

- Evaluate the Power Management business and decide if it can be restructured in order to make it profitable in the current business environment and stagnant construction industry. We do not have the resources to carry this segment through a prolonged business slowdown at its current level of profitability. We are currently in the process of reviewing our alternatives for this business and anticipate making a decision regarding which alternative to pursue during the second quarter of 2003.

Build on the recent project successes at Great Lakes Controlled Energy to make the Building Controls and Automation business grow and become profitable. Great Lakes has recently been awarded some new business which should contribute to an improvement in this segment's profitability. This segment must execute effectively in order to realize the profitability potential of this new business.

Continue to aggressively manage our costs in order to conserve cash. While we made significant progress in reducing our costs during 2002, we must not only keep our costs down, but we need to continue to find new ways to cut costs in order to efficiently utilize the capital resources available to us.

Raise additional capital to continue to fund operations until the business starts to generate positive cash flow, consistent with the plan presented to shareholder in July 2001. In February 2003, we successfully raised an additional $1 million through the sale of a package of securities that included shares of our common stock and a common stock warrant. Our current objective is to raise an additional $2 million to $4 million during 2003, beyond the $1 million raised in February.

Our projections indicate that if we are successful in achieving these priorities we should have sufficient liquidity to allow us to operate until our operations turn cash flow positive. These projections contain certain key assumptions, which may or may not occur. If, for one reason or another we do not raise additional capital in the near future or certain key assumptions contained in our projections are proven to be wrong, we may begin to experience a liquidity shortage later this year which could force us to scale back our growth plans, or in the worst case cease operations.

If we are successful in raising additional capital (which may require stockholder approval), our existing stockholders will likely experience dilution of their present equity ownership position and voting rights, depending upon the number of shares issued and the terms and conditions of the issuance. The new equity securities will likely have rights, preferences or privileges senior to those of our common stock.

Recent Accounting Pronouncements

On January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 15, 2001. In accordance with SFAS No. 142, we completed our transitional impairment testing of intangible assets during the second quarter of fiscal 2002. The impairment testing was performed in two steps: first, determining whether there was an impairment, based upon the fair value of a reporting unit as compared to its carrying value, and second, if there was an impairment, the determination of the impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. Subsequent to the first quarter of fiscal 2002, with the assistance of a third-party valuation firm, we finalized the testing of goodwill subject to SFAS 142. Using conservative, but realistic assumptions to model our power management business and building control and automation business, we determined that the carrying value of the power management business was greater than the derived fair value, indicating an impairment in the recorded goodwill. To determine fair value, we relied on a discounted cash flow analysis. For goodwill valuation purposes only, the revised fair value of this unit was allocated to the assets and liabilities of the reporting unit to arrive at an implied fair value of goodwill, based upon known facts and circumstances, as if the acquisition occurred currently. The allocation resulted in a write-down of recorded goodwill associated with the power management

segment in the amount of $4,103,872, which was recorded as a cumulative effect of a change in an accounting principle during the quarters ended March 31, 2002 and June 30, 2002, and a write-down of the recorded goodwill associated with the building automation controls business in the amount of $108,000 during the fourth quarter of 2002.

In addition, SFAS 142 provides that goodwill no longer be amortized, and as a result, we recorded no goodwill amortization during 2002, whereas we had recorded approximately $555,000 of goodwill amortization during 2001.

In August 2001, the FASB issued SFAS No. 143, "Accounting For Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period incurred. SFAS No. 143, which is effective for fiscal years beginning after June 15, 2002, is not expected to have a material impact on the Company.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 covers, among other things, the rescission of SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt." Under SFAS No. 4, all gains and losses from the extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item in the statement of operations. By rescinding SFAS 4, SFAS No. 145 eliminates the requirement for treatment of extinguishments as extraordinary items. Most of the transition provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002 and certain provisions are effective for transactions entered into after May 15, 2002. At this time, we do not believe that this new standard will have a material effect on our financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting Costs Associated with Exit or Disposal Activities". SFAS No. 146 revises the accounting for exit and disposal activities under Emerging Issues Task Force Issue 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity" (EITF Issue No. 94-3), by spreading out the reporting of expenses related to restructuring activities. Commitment to a plan to exit an activity or dispose of long-lived assets will no longer be sufficient to record a one-time charge for most anticipated costs. Instead, companies will record exit or disposal costs when they are "incurred" and can be measured at fair value, and they will subsequently adjust the recorded liability for changes in estimated cash flows. The provisions of SFAS No. 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002. Companies may not restate previously issued financial statements for the effect of the provisions of SFAS No. 146 and liabilities that a company previously recorded under EITF Issue No. 94-3 are grandfathered. We expect that the effects of adoption, if any, would relate solely to exit or disposal activities undertaken after December 31, 2002.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" ("SFAS No. 148"), which amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") to provide alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS No. 148 amends Accounting Principles Board Opinion No. 28, "Interim Financial Reporting" ("APB Opinion No. 28") to require disclosure about those effects in interim financial information. SFAS No. 148's amendment of the transition and disclosure requirements of SFAS No. 123 are effective for fiscal years ending after December 15, 2002, with earlier application permitted. SFAS No. 148's amendment of the disclosure requirements of APB Opinion No. 28 is

effective for interim periods beginning after December 15, 2002. We do not plan to change to the fair value method of accounting, but we do plan to adopt the disclosure requirements of SFAS No. 148 during 2003.

In November 2002, FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was issued. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The required disclosures and a roll-forward of product warranty liabilities are effective for financial statements of interim or annual periods ending after December 15, 2002. At this time, we do not believe that the adoption of this interpretation will have a material effect on our financial statements.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities, an interpretation of ARB 51. The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. We are currently evaluating the impact of FIN 46 on our financial statements, but do not expect that there will be any material impact.

Item 7. Financial Statements

Index to Financial Statements

Item 8. Change in and Disagreements with Accountants on Accounting and Financial Disclosure

None

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The table below shows certain information about our directors, executive officers and significant employees:

Name	Age	Principal Positions
Directors and Executive Officers		
John P. Mitola	38	Chief Executive Officer and Director
Jeffrey R. Mistarz	44	Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary
Denis Enberg	54	Senior Vice President, Engineering
Eric G. Pitcher	50	Senior Vice President, Marketing and Sales
Michael S. Stelter	46	Vice President, Sales and Director
David Asplund	44	Director
Frederic F. Brace	45	Director(3)
W. Scott Harlan	40	Director(4)
Robert J. Manning	60	Director(1)(2)
Kevin P. McEneely	54	Director
Gerald A. Pientka	47	Director(1)(2)
Robert D. Wagner, Jr.	61	Director(1)(2)(3)

(1) Member of our Audit Committee.

(2) Member of our Compensation Committee.

(3) Messrs. Brace and Wagner were appointed effective October 17, 2001 by the holders of our Series A Convertible Preferred Stock. Mr. Brace was appointed collectively by Morgan Stanley Dean Witter Equity Funding, Inc. and Originators Investment Plan, L.P., and Mr. Wagner was appointed by Duke Capital Partners, LLC. Newcourt Capital USA, Inc. has not yet appointed a director.

(4) Mr. W. Scott Harlan was appointed by EP Power Finance, L.L.C. effective June 1, 2002. Mr. Harlan is a Managing Director of EP Power Finance, L.L.C. Mr. Harlan recently announced his intent to resign from the Board effective March 31, 2003.

Our Board of Directors is currently authorized for a membership of twelve directors. As of February 28, 2003, our Board of Directors had three vacancies, of which one is to be appointed by the holders of our Series A Convertible Preferred Stock.

John P. Mitola has been one of our directors since November 1999 and has been our chief executive officer since January 2000. From August 1993 until joining us, Mr. Mitola was with Unicom Thermal Technologies (now Exelon Thermal Technologies), Unicom (now Exelon) Corporation's largest (at that time) unregulated subsidiary, serving most recently as vice president and general manager. Mr. Mitola led the growth of Unicom Thermal through the development of Unicom Thermal's Northwind ice technology and through thermal energy joint ventures between Unicom Thermal and several leading electric utility companies across North America. Prior to his appointment at Unicom Thermal, Mr. Mitola was director of business development for Commonwealth Edison Company, the local electric utility serving Chicago, Illinois and the northern Illinois region.

Jeffrey R. Mistarz has been our chief financial officer since January 2000, our treasurer since October 2000 and our assistant secretary since February 2003. From January 1994 until joining us, Mr. Mistarz served as chief financial officer for Nucon Corporation, a privately held manufacturer of material handling products and systems, responsible for all areas of finance and accounting, managing capital and shareholder relations. Prior to joining Nucon, Mr. Mistarz was with First Chicago Corporation (now Bank One Corporation) for 12 years where he held several positions in corporate lending, investment banking and credit strategy.

Denis Enberg has been our Senior Vice President of Engineering since Electric City acquired his company, Great Lakes Controlled Energy, in June 2001. Mr. Enberg co-founded Great Lakes Controlled Energy Corp in 1985. From 1975 to 1985 he was president of C.E. Electric Incorporated, a Chicago licensed commercial and industrial electrical contracting firm that also specialized in industrial automation and controls. Mr. Enberg is a charter life member of the Association of Energy Engineers and holds certifications as "Certified Energy Manager", "Certified Lighting Efficiency Professional" and "Certified Demand-Side Management" professional and is considered one of the early pioneers in the building automation industry.

Eric G. Pitcher has been with Electric City Corp. since November 2002 when he joined the organization as Senior Vice President, Marketing and Sales. From December 2001 until he joined us, Mr. Pitcher served as the Director, National Account Sales for Tractebel Energy Services, a subsidiary of the multi-billion dollar Suez Corporation, a multi-national conglomerate of energy, water and waste management companies. From 1997 to 2001, Mr. Pitcher was Director of Account Management-Midwest Region, at Enron Energy Services, Inc. From 1990-1997, Mr. Pitcher served as Manager, International Business Development and Principal, Business Development for Northern Indiana Public Service Co. (NIPSCO), a wholly owned subsidiary of Nisource, Inc.

Michael S. Stelter is one of our co-founders and has been one of our directors since our incorporation in June 1998. Since our organization as a limited liability company in December 1997, Mr. Stelter has served as our Vice President of Sales. Mr. Stelter was our Corporate Secretary from June 1998 until October 2000. From 1986 until May 1999, Mr. Stelter served as Vice President of Marino Electric.

David R. Asplund was nominated to our board of directors during June 2002. Mr. Asplund is, and has been, the founder and President of Delano Group Securities, LLC since October 1999. From March 1995 through October 1999, Mr. Asplund was employed by Bear, Stearns and Company, Inc., serving as a Senior Managing Director from July 1997 until October 1999.

Frederic F. Brace has been one of our directors since October 2001 and is an appointee of the holders of our Series A Convertible Preferred Stock. Mr. Brace is, and has been, the Senior Vice President and Chief Financial Officer of UAL Corporation, the parent of United Airlines since September 2001. From July 1999 through September 2001, Mr. Brace was Senior Vice President and Treasurer of United Airlines and its Vice President of Finance from October 1996 through July 1999.

W. Scott Harlan was appointed a director during June 2002 by the holders of our Series A Convertible Preferred Stock. Mr. Harlan is currently Vice President of EP Power Finance, L.L.C. and Managing Director of El Paso Merchant Energy Company North America, a merchant energy subsidiary of El Paso Corporation. Mr. Harlan has been with EP Power Finance and El Paso Merchant Energy since November 2000. Mr. Harlan previously served as a vice-president of Cinergy Capital Services from July 1997 to October 1999, and served in several electricity marketing positions with Koch Energy Services from September 1995 to July 1997. Prior to joining Koch, Mr. Harlan served for ten years in a number of positions in the power generation, marketing and demand-side management for Delmarva Power and Light Company.

Robert J. Manning has been one of our directors since May 2000 and Chairman of our Board of Directors since January 2001. Mr. Manning is a co-founder and a member of Groupe Manning LLC, an energy consulting company. From April 1997 until his retirement in January 2000, Mr. Manning served as executive vice president of Exelon Corporation and its largest subsidiary, Commonwealth Edison Company, where his responsibilities included managing the sale of Commonwealth Edison's fossil generating fleet. During his thirty-five year career at Exelon, Mr. Manning directed all aspects of electric generation, consumer service and transmission and distribution operations.

Kevin P. McEneely has been one of our directors since our incorporation in June 1998. Mr. McEneely was our Senior Executive Vice President and Chief Operating Officer from our organization as a limited liability company in December 1997 to December 1999. From 1985 to his retirement in December 1999, Mr. McEneely was Chief Operating Officer and an Executive Vice President of Nightingale-Conant Corporation. Mr. McEneely is also a member of NCVC.

Gerald A. Pientka has been one of our directors since May 2000. Mr. Pientka is a co-founder of Higgins Development Partners, LLC, a national real estate development company headquartered in Chicago, Illinois. Mr. Pientka has served as President of the company since its inception in May 1999 when the Pritzker family interest purchased a controlling interest in Higgins Development Partners, LLC (formerly Walsh, Higgins & Company). Mr. Pientka served as President of Walsh, Higgins & Company from May 1992 until May 1999. Mr. Pientka is also a member of Leaf Mountain Company, LLC, who is an investor in our Series A Convertible Preferred Stock (See, "Recent Sales of Unregistered Securities").

Robert D. Wagner, Jr. has been one of our directors since October 2001 and is an appointee of the holders of our Series A Convertible Preferred Stock. Mr. Wagner is currently a partner of Rivington Capital, an NASD registered broker/dealer specializing in debt and equity placements for independent oil and gas producers. Mr. Wagner served as Managing Director the corporate finance group of Arthur Andersen LLP from May 1999 until his retirement in April 2001. From June 1998 through May 1999, Mr. Wagner served as Managing Director of M2 Capital. From April 1989 through June 1998, Mr. Wagner served as Managing Director for Bankers Trust/BT Alex Brown.

Board Committees

Our board of directors currently has the following committees:

The Audit Committee oversees and monitors our financial reporting process and internal control system, reviews and evaluates the audit performed by our outside auditors and reports any substantive issues found during the audit to the Board. The Audit Committee is also directly responsible for the appointment, compensation and oversight of the work of our independent auditors. In addition, the committee also reviews and approves all transactions with affiliated parties and performs such other duties as are specified in the Audit Committee Charter, as amended from time to time. The members of the audit committee are Messrs. Manning, Pientka, and Wagner, all of who are independent directors.

We do not, at the present time, have a "financial expert", as that term is defined in the SEC Regulation S-B, on our Audit Committee. Only one member of our Board would qualify as a financial expert, but he is currently unable to serve on our audit committee due to other time commitments. We are attempting to find an individual who would meet the requirements for a financial expert and is willing to become a director and to serve on our audit committee.

Compensation Committee. The Compensation Committee is responsible for establishing, administering and reviewing compensation programs for the Company's executive and senior management, subject to approval of the Board as a whole. The members of the compensation committee are Messrs. Manning, Pientka, and Wagner.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the Securities Exchange Commission and the American Stock Exchange reports of ownership of Company securities and changes in reported ownership. Officers, directors and greater than 10% shareholders are required by SEC rules to furnish the Company with copies of all Section 16(a) reports filed.

Based solely upon a review of the reports furnished to the Company, or written representations from reporting persons that all reportable transactions were reported, the Company believes that during 2002 the Company's officers, directors and greater than 10% owners timely filed all reports they were required to file under Section 16(a), except that: Mr. Stelter was late in reporting two transactions; Mr. Hoppensteadt was late in reporting one transaction; Mr. Pitcher was late in reporting one transaction; Mr. McEneely was late in reporting two transactions;

Mr. Conant was late in reporting two transaction; NCVC was late in reporting two transactions; DYDX was late in reporting two transactions.

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Item 10. Executive Compensation

Summary Compensation Table

The following table summarizes the total compensation paid or awarded to each of our executive officers and to other officers whose total compensation exceeded $100,000 during the fiscal year ended December 31, 2002. There were no bonuses awarded for the fiscal year ended December 31, 2001.

		Annual Compensation			Long Term Compensation
Name and Principal Position	**Year Ended**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation ($)**	**Securities Underlying Options (#)**
John P. Mitola(1)	12/31/02	$ 345,900		$ 5,325(5)	
our chief executive officer	12/31/01	$ 350,000		$ 14,370(5)	
	12/31/00	$ 350,000	$ 140,000	$ 9,190(5)	1,000,000
William A. Karambelas(2)	12/31/02	$ 202,789		$ 1,575(6)	
our senior vice president of sales	12/31/01	$ 167,197		$ 110(6)	150,000
	12/31/00				
Greg Rice(3)	12/31/02	$ 147,692	$ 40,000	$ 882(7)	
Our senior vice president and general counsel	12/31/01	$ 150,000			
	12/31/00	$ 75,000			150,000
Jeffrey R. Mistarz(4)	12/31/02	$ 172,308		$ 7,945(8)	
our chief financial officer and treasurer	12/31/01	$ 175,000		$ 7,657(8)	
	12/31/00	$ 175,000	$ 70,000	$ 2,320(8)	200,000

(1) Mr. Mitola, entered into an employment agreement with us on November 18, 1999 for a term of three years which became effective on January 3, 2000 and ending on December 31, 2002. Effective as of Janaury 1, 2000, options with an exercise price of $7.00 per share that vest over the term of the agreement were granted to Mr. Mitola pursuant to his employment agreement.

(2) Mr. Karambelas' employment with the Company became effective on April 1, 2001. Mr. Karambelas is not an executive officer of the Company but is included for purposes of compensation disclosure. As part of Mr. Karambelas' offer of employment, he was granted options with an exercise price of $7.00 per share that vest over a four-year period.

(3) Mr. Rice's employment with the Company became effective on July 5, 2000. Mr. Rice is not an executive officer of the Company but is included for purposes of compensation disclosure. As part of Mr. Rice's offer of employment he was granted options with exercise prices between $7.00 and $9.00 per share that vest over a three-year period.

(4) Mr. Mistarz entered into an employment agreement with us effective January 14, 2000 for a term of three years beginning as of January 1, 2000 and ending on December 31, 2002. As part of the employment agreement, Mr. Mistarz was granted options with an exercise price of $7.00 per share that vest over the term of the agreement.

(5)

This represents a monthly auto allowance of $550 and the cost of life insurance and long-term disability insurance for Mr. Mitola.

(6) This represents the cost of long-term disability insurance for Mr. Karambelas.

(7) This represents the cost of long-term disability insurance for Mr. Rice.

(8) This represents the cost of life insurance and long-term disability insurance for Mr. Mistarz.

Employment Agreements

Effective January 3, 2000, we entered into an employment agreement with John Mitola, our chief executive officer, for a three-year period ending on December 31, 2002. The agreement provided for a base salary of $350,000 per year and a discretionary bonus of up to forty percent (40%) of his annual salary payable if we meet or exceed the terms of our annual business plan. The agreement also provides for a monthly automobile allowance of $550.00 and the reimbursement of Mr. Mitola's business-related cellular phone calls.

Under the employment agreement, we granted to Mr. Mitola an option to purchase 1,000,000 shares of our common stock at $7.00 per share, which became exercisable with respect to 333,334 shares on December 31, 2000, 333,333 shares on December 31, 2001 and which will become exercisable with respect to 333,333 shares on December 31, 2002. Mr. Mitola has piggyback registration rights with respect to all shares of our stock obtained through the exercise of these options but has waived such rights with respect to registrations undertaken on behalf of the holders of our Series A Convertible Preferred Stock.

Effective January 1, 2003, we entered into a new employment agreement with John Mitola for a three-year period ending on December 31, 2005. The new agreement, which was structured to place more emphasis on achieving important corporate milestones, reduced Mr. Mitola's base salary to $250,000 per year, but provides for a discretionary bonus of up to one hundred percent of his annual salary payable if he meets or exceeds certain annual goals as establish by the Board of Directors, and a guaranteed bonus of $250,000 upon the achievement of two consecutive calendar quarters of positive net income by the Company (such net income to be that as reflected in the Company's quarterly reports filed with the Securities and Exchange Commission). The agreement also provides for a monthly automobile allowance of $550.00 and the reimbursement of Mr. Mitola's business-related expenses.

Under the new employment agreement, we granted to Mr. Mitola an option to purchase 750,000 shares of our common stock at a price per share of $0.845, which is equal to the average closing price of the Company's common stock as measured over the thirty (30) trading day period prior to the effective date of the contract. The options granted under the employment contract vest 250,000 shares on each December 31st of 2003, 2004 and 2005.

The employment agreement imposes on Mr. Mitola non-competition, non-solicitation and confidentiality agreements.

On January 14, 2000, we entered into an employment agreement with Jeffrey Mistarz, our chief financial officer and treasurer, for a term of three years commencing on January 1, 2000 and ending on December 31, 2002. The agreement provided for a salary of $175,000 per year and a discretionary bonus payable if Mr. Mistarz attained established performance goals agreed upon by Mr. Mistarz and our chief executive officer.

Under the employment agreement, we granted to Mr. Mistarz an option to purchase 200,000 shares of our common stock at $7.00 per share which vested with respect to 66,667 shares on December 31, 2000, 66,667 shares on December 31, 2001 and with respect to 66,666 shares on December 31, 2002. Upon vesting, the options become exercisable over a three-year period beginning on the vesting date.

The employment agreement imposes on Mr. Mistarz non-competition, non-solicitation and confidentiality agreements.

Mr. Mistarz and the Company are currently negotiating a renewal of his employment contract which is expected to run through December 31, 2005.

2002 Option Grants

The following table sets forth information regarding stock option grants made to each of the above named executive and principal officers during the fiscal year ended December 31, 2002.

Name	Number of Shares Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Period	Exercise Price ($/Share)	Expiration Date
John P. Mitola	0			
William A. Karambelas	0			
Greg Rice	0			
Jeffrey R. Mistarz	0			

2002 Option Values

The following table sets forth information regarding the number and value of unexercised options held by each of the above named executive and principal officers as of December 31, 2002. None of our named executive or principal officers hold any stock appreciation rights and none of them exercised any options during the fiscal year ended December 31, 2002.

	Number of Shares Underlying Unexercised Options at December 31, 2002 (#)		Value of Unexercised In-the-Money Options at December 31, 2002 ($)	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
John P. Mitola	1,000,000	0	$ 0	$ 0
William A. Karambelas	37,500	112,500	$ 0	$ 0
Greg Rice	37,500	112,500	$ 0	$ 0
Jeffrey R. Mistarz	133,334	66,666	$ 0	$ 0

Stock Options and Incentive Compensation

During the Company's annual meeting of shareholders held on August 30, 2001, our shareholders approved the adoption of the 2001 Stock Incentive Plan (the "Plan"), which provides that up to 800,000 shares of the Company's common stock, par value $0.0001 ("Common Stock") may be delivered under the Plan to certain employees of the Company or any of its subsidiaries. In addition, the Plan provides for an additional 500,000 shares of Common Stock to be reserved on January 1 of each succeeding year, beginning January 1, 2002. The awards to be granted under the Plan may be incentive stock options eligible for favored treatment under Section 422 of the Internal Revenue code of 1986, as amended from time to time, or non-qualified options that are not eligible for such treatment or stock of the Company, which may be subject to contingencies or restrictions. Approximately 40 employees, officers and directors of the Company are currently eligible to participate in the Plan.

The exercise price for any incentive stock option ("ISO") may not be less than 100% of the fair market value of the stock on the date the option is granted, except that with respect to a participant who owns more than 10% of the Common Stock the exercise price must be not less than 110% of fair market value. The exercise price of any non-qualified option shall be in the sole discretion of the Committee or Board. The aggregate fair market value of the shares that may be subject to any ISO

granted to any participant may not exceed $100,000 on the date of grant. There is no comparable limitation with respect to non-qualified stock options.

The term of all options granted under the Plan will be determined by the Committee or Board in their sole discretion, provided, however, that the term of each ISO shall not exceed 10 years from the date of grant thereof and, further provided, that if, at the time an ISO is granted, the optionee owns (or is deemed to own under Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, of any of its Subsidiaries or of a Parent, the term of the ISO shall not exceed five years from the date of grant. The right of exercise will be cumulative, so that shares that are not purchased in one year may be purchased in a subsequent year. The options may not be assigned. Upon exercise of any option, in whole or in part, payment in full is required (unless the applicable award contract permits installment payments or cashless exercise) for the number of shares purchased. Payment may be made in cash, by delivery of shares of the Common Stock of equivalent fair market value or by any other form of legal consideration that is acceptable to the Board.

In addition to the ISOs and non-qualified options, the Plan permits the Committee, consistent with the purposes of the Plan, to grant shares of Common Stock to non-employee directors and such employees (including officers and directors who are employees) of, or consultants to, the Company or any of its Subsidiaries, as the Committee may determine, in its sole discretion. The grant may require the holder to pay such price per share therefore, if any, as the Committee may determine. Such shares may be subject to such contingencies and restrictions as the Committee may determine.

If an employee's employment is terminated by reason of death, disability or retirement, either the employee or his or her beneficiary will have the right for eighteen months to exercise the option to the extent the option was exercisable on the date of death or disability, but in no event after the date the award would otherwise have expired. If a Plan participant's relationship with the Company is terminated for any reason other than death, disability or retirement and other than for cause or without the Company's consent (in which case the option shall terminate immediately), he or she may, for a period of one year, exercise the option to the extent that it was exercisable on the date of termination, but in no event after the date the award would otherwise have expired.

The Plan is administered by the Board, which is authorized to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan and to determine the employees to whom, and the time, terms and conditions under which, options are to be granted. The Board is also authorized to adjust the number of shares available under the Plan, the number of shares subject to outstanding options and the option prices to take into account the Company's capitalization by reason of a stock dividend, recapitalization, merger, consolidation, stock split, combination or exchange of shares or otherwise.

The Board may amend, suspend or terminate the Plan in any respect at any time. However, no amendment may (i) increase the number of shares reserved for option under the Plan, (ii) modify the requirements for participation in the Plan, or (iii) modify the Plan in any way that would require stockholder approval under the rules and regulations under the Exchange Act.

Under current Federal law, no taxable income will be recognized by the recipient of an incentive stock option within the meaning of Section 422 of the Code upon either the grant or exercise of the incentive stock option (provided the exercise occurs while the participant is an employee of the Company or within three months after termination of employment), nor will a deduction be allowed the Company by reason of the grant or exercise, provided the employee does not dispose of the shares issued upon exercise within two years from the date the option was granted and within one year from the date the shares were issued. If the recipient fails to satisfy these holding period requirements, the difference between the amounts realized upon disposition of the shares and the adjusted basis of the

shares is includible as compensation in the recipient's gross income and the Company will be entitled to a deduction in that amount.

Under current law, the holder of a non-qualified stock option is taxable at the time of exercise on the difference between the exercise price and the fair market value of the shares on the date of exercise. Upon disposition of the stock, the stockholder is taxable upon the difference between the basis of the stock (which is equal to the fair market value at the time the option was exercised) and the amount realized upon the disposition.

A grant of shares of Common Stock that is subject to no vesting restrictions will result in taxable income for federal income tax purposes to the recipient at the time of grant in an amount equal to the fair market value of the shares awarded. The Company would be entitled to a corresponding deduction at that time for the amount included in the recipient's income.

Generally, a grant of shares of Common Stock under the Plan subject to vesting and transfer restrictions will not result in taxable income to the recipient for federal income tax purposes or a tax deduction to the Company in the year of the grant. The value of the shares will generally be taxable to the recipient as compensation income in the years in which the restriction on the shares lapse. Such value will be the fair market value of the shares on the dates the restrictions terminate. Any recipient, however, may elect pursuant to Section 83(b) of the Code to treat the fair market value of the shares on the date of such grant as compensation income in the year of the grant of restricted shares, provided the recipient makes the election within 30 days after the date of the grant. In any case, the Company will receive a deduction for federal income tax purposes corresponding in amount to the amount of compensation included in the recipient's income in the year in which that amount is so included.

As of December 31, 2002, there were 1,300,000 shares of Common Stock reserved under the Plan. The Company granted options to purchase 295,238 under the plan during 2002, and options to purchase 493,913 shares were outstanding under the Plan as of December 31, 2002.

Director Compensation

Effective April 1, 2000, the Company adopted a stock option plan for all independent directors. The plan provides that eligible directors receive an initial option grant upon being appointed to our Board of Directors to purchase 75,000 shares of our common stock at a price equal to the greater of the closing price of our common stock on the grant date, and $1.00. These options have a term of ten years and vest in three equal amounts, beginning on the grant date and each of the next two anniversary dates of the grant, assuming the individual is still a member of the Board of Directors on such anniversary date. Mr. Asplund received options pursuant to this provision of our director's option plan.

Eligible directors are also granted additional options to purchase 25,000 shares of our common stock on the anniversary of their appointment to the Board, if they are still a member of the Board of Directors on such anniversary date. These options have an exercise price equal to the greater of the closing price of our common stock on the grant date, and $1.00. These options also have a term of ten years and vest in three equal amounts, beginning on the grant date and each of the next two anniversary dates of the grant, assuming the individual is still a member of the Board of Directors on such anniversary date. Messrs. Brace, Harland, Manning, Pientka and Wagner received options pursuant to this provision of our director's option plan.

Directors who are also employees of the Company receive no additional compensation for their services as directors. Directors who are not employees of the Company (excluding founder-directors), in addition to stock options, are reimbursed for travel expenses and other out-of-pocket costs incurred in connection with their attendance at such meetings.

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Item 11. Security Ownership of Certain Beneficial Owners and Management

The following tables list certain information, as of February 28, 2003, regarding the beneficial ownership of our outstanding common stock by (1) each of our directors and named executive officers, the persons known to us to beneficially own greater than 5% of our common stock and our directors and executive officers, as a group. Beneficial ownership is determined in accordance with the rules of the SEC. Except as otherwise noted, (1) the persons or entities named have sole voting and investment power with respect to all shares shown as beneficially owned by them and (2) the address of each person listed in the following table (unless otherwise noted) is c/o Electric City Corp., 1280 Landmeier Road, Elk Grove Village, Illinois 60007-2410.

Name	Shares Directly Held	Shares Issuable Upon Exercise of Preferred Stock	Shares Issuable Upon Exercise of Warrants	Shares Issuable Upon Exercise of Options	Total	%
Directors, Executive Officers and 5% Holders						
Joseph C. Marino	7,379,754(1)			2,150,000(2)	9,529,754	26.83%
Pino Manufacturing, LLC	6,819,888			2,150,000	8,561,852	24.29%
NCVC, L.L.C.(3)	3,962,699			1,000,000(5)	4,966,699	14.44%
Victor Conant	3,962,699			1,000,000(5)	4,966,699	14.44%
Kevin P. McEneely	3,962,699(4)			1,000,000(5)	4,966,699	14.44%
DYDX Consulting LLC(6)	2,730,500(8)			947,546(7)	3,864,000	10.38%
Nikolas Konstant	2,730,500			947,546(7)	3,864,000	10.38%
Newcourt Capital Securities, Inc.(9)	80,217	4,564,101	4,064,830		8,709,148	20.74%
Newcourt Capital USA, Inc.(10)	80,217	4,564,101	4,064,830(11)		8,709,148	20.74%
EP Power Finance, L.L.C.(10)	80,217	4,602,317	750,000	58,334(13)	5,490,868	14.16%
	80,217	4,602,317	750,000		5,432,534	14.03%

Name	Shares Directly Held	Shares Issuable Upon Exercise of Preferred Stock	Shares Issuable Upon Exercise of Warrants	Shares Issuable Upon Exercise of Options	Total	%
Duke Capital Partners, LLC(10)						
Morgan Stanley Dean Witter Equity Funding, Inc.(10)(12)	80,217	4,602,317	750,000		5,432,534	14.03%
Leaf Mountain Company, LLC(10)	45,122	3,340,874	421,875		3,807,871	10.25%
Richard Kiphart(14)	30,082	2,116,426	500,000	281,250	2,927,758	8.07%
John P. Mitola(15)	18,456			1,000,000	1,018,456	2.96%
Jeffrey R. Mistarz	9,200			133,333	142,533	*
William A Karambelas(16)	1,000			75,000	76,000	*
Greg Rice(16)				50,000	50,000	*
Michael S. Stelter	1,117,652				1,117,652	3.35%
David Asplund	57,412				47,412	*
Frederic F. Brace				58,334	58,334	*
W. Scott Harlan				(13)		*
Robert J. Manning	2,000			75,001	77,001	*
Gerald A. Pientka(10)	22,000			75,001	97,001	*
Robert D. Wagner, Jr.				58,334	58,334	*
All directors and executive officers as a group (13 persons)**	5,182,419			2,525,003	7,707,422	21.47%

*
Denotes beneficial ownership of less than 1%.

**
Eliminates duplication

(1)
Includes 6,819,888 shares held of record by Pino Manufacturing, LLC ("Pino"). Mr. Marino holds a 100% membership interest in Pino and, in such capacity, has sole voting and investment power with respect to the shares of common stock held by Pino and, therefore, is deemed to be the beneficial owner of these shares.

(2)
Includes options to acquire 1,700,000 shares of common stock at $1.10 per share held by Pino. In addition, Mr. Marino holds options to acquire 450,000 shares of common stock at $3.50 per share, which he received as our Chairman prior to his resignation in December 2000.

(3)
The business address of NCVC, L.L.C. ("NCVC") is 6245 West Howard St., Niles, Illinois 60714.

(4)
Includes 3,966,699 shares held of record by NCVC. Messrs. Conant and McEneely are managers and members of NCVC, and, in said capacities, share voting and investment power with respect to shares of common stock held by NCVC. Therefore, they are deemed to be the beneficial owners of these shares.

(5)
Includes options to acquire 1,000,000 shares of common stock at $1.10 per share held by NCVC.

(6)

The business address of DYDX Consulting, LLC ("DYDX") is 221 N. LaSalle Street, Suite 3900, Chicago, Illinois 60601.

(7) Includes options to acquire 947,546 shares of common stock at $1.10 per share held by DYDX.

(8) Includes 2,730,500 shares held of record by DYDX. Mr. Konstant holds a 100% membership interest in DYDX and, in such capacity, has sole voting and investment power with respect to the shares of common stock held by DYDX and, therefore, is deemed to be the beneficial owner of these shares.

(9) Newcourt Capital Securities, Inc. ("Newcourt Capital Securities"), a registered broker-dealer, was issued warrants to purchase 3,314,830 shares of the Company's Common Stock at a price of $1.00 per share in consideration for purchasing $3,200,000 of Convertible Senior Subordinated Promissory Notes from the Company during the second quarter of 2001 and for acting as placement agent for the Company's issuance of its Series A Convertible Preferred Stock, which transaction closed on September 7, 2001 (see following note). Newcourt Capital Securities, Inc. is a wholly owned subsidiary of Newcourt Capital USA, Inc. Accordingly, Newcourt Capital USA is deemed to be the beneficial owner of shares held by Newcourt Capital Securities.

(10) On September 7, 2001, we closed our Series A Convertible Preferred Stock transaction with a group of investors and issued the following securities for an aggregate purchase price of $16,000,000:

- 400,000 shares of our Series A Convertible Preferred Stock ("Series A Preferred Stock") to each of Newcourt Capital USA, Inc. ("Newcourt"), Duke Capital Partners, LLC ("Duke Capital"), and EP Power Finance, L.L.C. ("EPP"), 380,000 shares of our Series A Convertible Preferred Stock to Morgan Stanley Dean Witter Equity Funding, Inc. ("Morgan Stanley") and 20,000 shares of our Series A Convertible Preferred Stock to Originators Investment Plan, L.P. ("OIP"). OIP is an affiliate of Morgan Stanley and therefore, Morgan Stanley is deemed to be the beneficial owner of shares held by OIP. Each share of Series A Preferred Stock is convertible into 10 shares of our common stock.

- Warrants to purchase 100,000 shares of our Series A Preferred Stock to each of Newcourt, Duke Capital and EPP, warrants to purchase 95,000 shares of our Series A Preferred Stock to Morgan Stanley and warrants to purchase 5,000 shares of our Series A Preferred Stock to OIP. These warrants expired unexercised on September 7, 2002.

- 80,217 shares of our Common Stock to each of Newcourt, Duke Capital and EPP, 76,206 shares of our Common Stock to Morgan Stanley and 4,011 shares of our common stock to OIP.

- Warrants to purchase 750,000 shares of our Common Stock to each of Newcourt, Duke Capital and EPP, warrants to purchase 712,500 shares of our Common Stock to Morgan Stanley and warrants to purchase 37,500 shares of our Common Stock to OIP. These warrants are initially exercisable at $1.00 per share.

- The Company has declared and paid dividends on the aforementioned preferred stock in the form of additional shares of preferred stock. As of December 31, 2002, the additional shares of Series A Preferred Stock issued as dividends total 237,105 shares.

Additional information regarding each of these investors is as follows:

- The business address of Newcourt Capital USA, Inc. is 1211 Avenue of the Americas, 22nd Floor, New York, New York 10036.

- The sole member of Duke Capital Partners, LLC is Duke Capital Corporation. The business address of Duke Capital Partners, LLC is 128 South Tryon Street, Suite 1100, Charlotte, North Carolina 28202.

The sole member of EP Power Finance, L.L.C. is El Paso Merchant Energy North America Company. The business address of EP Power Finance, L.L.C. is 1001 Louisiana Street, Houston, Texas 77002.

The business address of Morgan Stanley Dean Witter Equity Funding, Inc. is 1585 Broadway, New York, New York 10036.

MSDW OIP Investors, Inc., is an affiliate of Morgan Stanley Dean Witter Equity Funding, Inc., and is also the sole general partner of OIP. The business address of Originators Investment Plan, L.P. is 1585 Broadway, New York, New York 10036.

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On November 29, 2001, we closed on an additional issuance of our Series A Convertible Preferred Stock with Leaf Mountain Company, LLC ("Leaf Mountain") and issued the following securities for an aggregate purchase price of $3,000,000:

300,000 shares of our Series A Preferred Stock. Each share of Series A Preferred Stock is convertible into 10 shares of our Common Stock.

Warrants to purchase 75,000 shares of our Series A Preferred Stock. These warrants are initially exercisable at $10.00 per share and each share of Series A Preferred Stock is convertible into 10 shares of our Common Stock.

45,122 shares of our common stock.

Warrants to purchase 421,875 shares of our Common Stock. These warrants are initially exercisable at $1.00 per share.

The Company has declared and paid dividends on the aforementioned preferred stock in the form of additional shares of preferred stock. As of December 31, 2002, the additional shares of Series A Preferred Stock issued as dividends total 34,087 shares.

Additional information regarding Leaf Mountain is as follows:

The business address of Leaf Mountain is 190 South LaSalle Street, Suite 1700, Chicago, Illinois, 60603.

Mr. Gerald Pientka, who is one of our directors, is also a member of Leaf Mountain. Of the $3,000,000 invested by Leaf Mountain in the Company's Series A Convertible Preferred Stock, Mr. Pientka, through Leaf Mountain, contributed $75,000. It is the policy of the Company that any officer or director who has a direct or indirect conflict in a contemplated or pending business matter must abstain from discussions or votes of our board of directors regarding such matter. Accordingly, Mr. Pientka did not participate in any such discussions or votes relating to the sale to Leaf Mountain. In addition, Mr. Pientka was not aware of any matters involving or affecting the Company that were not disclosed to Leaf Mountain by the Company during the due diligence review conducted prior to the closing of the transaction.

(11)

Includes warrants to acquire 3,314,830 shares of common stock at an initial exercise price of $1.00 per share held by Newcourt Capital Securities, Inc.

(12)

Morgan Stanley is a wholly owned subsidiary of Morgan Stanley Dean Witter & Co. OIP is a limited partnership, of which the sole general partner is MSDW OIP Investors, Inc., also a wholly owned subsidiary of Morgan Stanley Dean Witter & Co. Accordingly, Morgan Stanley is an affiliate of, and is deemed to be the beneficial owner of the shares held by, OIP.

(13)
Reflects stock options awarded to Paul McGlinn, a former director, and W. Scott Harlan, a current director, of the Company, pursuant to the Directors Stock Option Program. The policies of EP Power Finance, L.L.C., who was Mr. McGlinn's employer and is Mr. Harlan's current employer, provide that director compensation be paid to the company rather than to the individual.

(14)
On May 22, 2002, our board of directors approved the designation of up to 337,500 shares of our preferred stock as "Series C Convertible Preferred Stock" and approved the issuance of such stock. On June 4, 2002, we closed on an issuance of our Series C Convertible Preferred Stock with Mr. Richard Kiphart, an individual, and issued the following securities for an aggregate purchase price of $2,000,000:

200,000 shares of our Series C Convertible Preferred Stock. Each share of Series C Convertible Preferred Stock is convertible into 10 shares of our Common Stock.

Warrants to purchase 50,000 shares of our Series C Convertible Preferred Stock. These warrants are initially exercisable at $10.00 per share and each share of Series A Preferred Stock is convertible into 10 shares of our Common Stock.

30,082 shares of our Common Stock.

Warrants to purchase 281,250 shares of our Common Stock. These warrants are initially exercisable at $1.00 per share.

The Company has declared and paid dividends on the aforementioned preferred stock in the form of additional shares of preferred stock. As of December 31, 2002, the additional shares of Series C Preferred Stock issued as dividends total 11,643 shares.

Additional information regarding Mr. Kiphart is as follows:

The business address of Mr. Kiphart is c/o William Blair & Company, LLC, 222 W. Adams Street, Chicago, Illinois 60606.

(15)
Includes 13,706 shares owned by Mr. Mitola's wife, for which he disclaims beneficial ownership.

(16)
Messrs. Karambelas and Rice are not executive officers but are included for disclosure purposes.

Item 12. Certain Relationships And Related Transactions

On May 24, 1999, we purchased from Mr. Marino most of the assets of Marino Electric for a purchase price of $3,888,000, consisting of $1,792,000 in cash and 1,600,000 shares of our common stock. The purchase price of $3,880,000 exceeded the fair value of the assets acquired by approximately $3,363,000. Under the terms of the purchase agreement, we were obligated to pay the cash portion of the purchase price upon the closing of our private issuances of common stock that commenced in July 1999. In May 2000, Mr. Marino waived this requirement and instead received a payment of $820,000 in cash and a subordinated secured term note for the principal amount of $972,000 at an interest rate of 10% per annum, payable in equal installments over 24 months and requiring principal and interest payments of $44,928 per month. The note was paid off in May 2002. Our board, including the members not affiliated with Marino Electric, negotiated and approved the terms of this transaction on our behalf and believed that they were as favorable to us as if negotiated with an unaffiliated third party.

On April 1, 2000, we entered into a state representative agreement with Electric City of Illinois and on June 1, 2000, we entered into a state representative agreement with Electric City of Indiana. James Stumpe, one of our directors until his resignation in August 2001, is a member of Electric City of Illinois and, until October 15, 2001, was a member of Electric City of Indiana. The agreements grant to Electric City of Illinois and Electric City of Indiana distribution territories within the States of Illinois and Indiana, respectively. The members of our board other than Mr. Stumpe approved the terms of the transactions and believed the terms to be substantially similar to those of our other distributor or state representative agreements and as favorable to us as if negotiated with an unaffiliated third party.

On January 5, 2000, we entered into a distributor agreement with Electric City of Southern California L.L.C., of which Mr. Marino is a member, which provides for an initial term of 10 years. The agreement grants to Electric City of Southern California a distribution territory that extends from Monterrey to Fresno to the northern edge of Death Valley, south to the southern border of California. This agreement provides for terms that are substantially similar to those of our other distributor agreements and as favorable to us as if negotiated with an unaffiliated third party.

Effective December 4, 2000, we entered into an agreement with Mr. Marino in which we agreed to grant to Mr. Marino distributorship rights of our EnergySaver product in Northern California, Nevada and Arizona and to enter into distributor agreements with Mr. Marino with respect to each of these distribution territories for an initial term of 10 years and on terms substantially similar to those of our other distributor and state representative agreements. With respect to the Southern California distribution territory, we agreed to permit Electric City of Southern California to transfer to Mr. Marino its current distributor agreement described above. As partial consideration for our grant of distributorship rights, effective December 4, 2000, (1) we terminated the option to purchase 2,000,000 shares of our common stock at $1.10 per share held by Pino, LLC with respect to 300,000 shares and (2) Mr. Marino resigned from our Board of Directors and from his executive position as our Chairman of the Board. The members of our board other than Mr. Marino approved the terms of the transactions and believed they were as favorable to us as if negotiated with an unaffiliated third party.

In October 2000, we entered into an agreement with KMC Telecom (for which Roscoe Young, one of our former directors, is President and Chief Operating Officer) to sell and install our TP3 switchgear product at three KMC Telecom facilities. The sale and installation amount for the three sites totaled $773,802, of which $435,551 was recognized in 2000 and $338,951 was recognized in 2001. The aggregate amount was reflective of prices that would be charged to an unrelated third party. Installation of the TP3 switchgear began in November 2000 and was completed in June 2001.

Each of Augustine Fund, L.P., which converted all of its outstanding shares of our Series B Convertible Preferred Stock during June 2001 into shares of our common stock, and Messrs. Conant,

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Konstant, Marino, McEneely and Stelter (each, a "Restricted Stockholder") (each, a "Restricted Stockholder") has entered into separate trading agreements with us that are effective for a term of three years beginning on October 17, 2000. The trading agreements restrict each Restricted Stockholder's transfer of our common stock as follows:

- sales in any one trading day by such Restricted Stockholder shall not exceed the greater of 10,000 shares or 10% of the average trading volume of our stock during the 10 prior trading days;

- public trades by such restricted stockholders in an opening transaction, during the last half hour of any trading day and at any time outside of regular trading hours shall be prohibited; and

- up to four times within any 12-month period, we may prohibit any Restricted Stockholder from trading the common stock for an entire trading day.

We have agreed to give each Restricted Stockholder a right of first refusal to sell his common stock to any third party that contacts us with a desire to purchase 100,000 or more shares of our common stock. This right will be allocated equally among each of the Restricted

Stockholders who elect to participate in the sale. However, this right of first refusal will not preclude us from raising additional capital should such need arise.

Our subsidiary, Switchboard Apparatus, Inc. paid $152,870 and $328,323 during 2002 and 2001, respectively, to Harbrook Tool and Manufacturing Company ("Harbrook") for manufacturing and installing safety devices to distribution panels made by various manufacturers. A minority owner of Harbrook is Mr. Terry Hoppensteadt, who is a brother of Dale Hoppensteadt, the president of Switchboard Apparatus. We believe the amounts paid for such work are consistent with that which would be paid to an unrelated third party.

One of our wholly-owned subsidiaries, Switchboard Apparatus, Inc., leases its manufacturing facilities in Broadview, Illinois from owners which include Dale Hoppensteadt, the current president of Switchboard Apparatus. We paid $120,000 and $117,000 during 2002 and 2001, respectively, in lease payments. The lease was assumed with the purchase of Switchboard Apparatus, Inc. and expires in April 2004.

Our other wholly-owned subsidiary, Great Lakes Controlled Energy Corp. ("Great Lakes"), leases its office and warehouse facility in Elk Grove Village, Illinois from Eugene Borucki and Denis Enberg, the former owners of Great Lakes who are currently officers of our Company. We paid $120,000 and $70,000 during 2002 and 2001, respectively, in lease payments. The lease commenced with the purchase of Great Lakes in June 2001 and expires in June 2004.

During August 2001, Messrs. Conant, Konstant, Marino, McEneely and Stelter agreed to amendments of the terms of their trading agreements to provide that sales in any one trading day cannot exceed 5% of the average trading volume of our Common Stock on such day and such sales will not exceed 15% of such individual's holdings in any three-month period. In addition, if the Company and a managing underwriter request a market stand-off pursuant to a qualified public offering, each individual agrees not to sell, make any short sale of, grant any option for the purchase of, or otherwise dispose of any of their holdings (other than those included in the registration) without the consent of the underwriter. The market stand-off period will not exceed 180 days.

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated as of August 31, 2000, by and among the Company and Electric City Acquisition Corporation, a wholly-owned subsidiary of the Company, Switchboard Apparatus, Inc. and Dale Hoppensteadt, George Miller and Helmut Hoppe (incorporated by reference to Exhibit 2 to the Company's Current Report on Form 8-K dated August 31, 2000 (No. 0-2791)).
2.2	Letter Agreement, dated November 21, 2000, amending the Agreement and Plan of Merger, dated August 31, 2000, by and among Electric City Corp., Electric City Acquisition, Switchboard Apparatus and the stockholders of Switchboard Apparatus (Incorporated by reference to the Company's Registration Statement on Form SB-2 filed August 16, 2001 (No. 333-67642)).
2.3	Letter Agreement, dated December 22, 2000, amending the Agreement and Plan of Merger dated August 31, 2000 among Electric City Corp., Electric City Acquisition, Switchboard Apparatus and the stockholders of Switchboard Apparatus (Incorporated by reference to the Company's Registration Statement on Form SB-2 filed August 16, 2001 (No. 333-67642)).
2.4	Agreement and Plan of Merger, dated June 7, 2001, by and among Electric City Corp., Electric City Great Lakes Acquisition Corporation, a wholly owned subsidiary of the Company, Great Lakes Controlled Energy Corporation, Eugene Borucki and Denis Enberg (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB dated June 30, 2001 (No. 0-2791)).
2.5	Commercial Building Lease Dated June 7, 2001, by and between Electric City Corp. and Eugene Borucki and Denis Enberg. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB dated June 30, 2001 (No. 0-2791)).

Exhibit Number	Description
3.1	Certificate of Incorporation (Incorporated by reference to the Company's Registration Statement on Form 10-SB filed on January 11, 2000 (No. 0-2791)).
3.2*	Certificate of Amendment to Certificate of Incorporation dated August 30, 2001.
3.3*	Bylaws of the Company, as amended.
3.5*	Certificate of Amendment to Certificate of Incorporation, dated August 6, 2002.
3.6*	Charter of Audit Committee, as restated.
4.1	Indemnification and Stockholder Agreement, dated as of August 31, 2000, by and among Electric City Corp. and Dale Hoppensteadt, George Miller and Helmut Hoppe (Incorporated by reference to the Company's Current Report on Form 8-K dated August 31, 2000 (No. 0-2791)).
4.2	Securities Purchase Agreement, made as of October 17, 2000, by and between the Company and Augustine Fund, L.P. (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of the Company dated October 17, 2000 (No. 0-2791))
4.3	Certificate of Designation of the Relative Rights and Preferences of the Series B Convertible Preferred Stock of the Company (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of the Company dated October 17, 2000 (No. 0-2791))

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4.4	The Registration Rights Agreement, made as of October 17, 2000, by and between the Company and Augustine Fund, L.P. (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K of the Company dated October 17, 2000 (No. 0-2791))
4.5	Warrant to Purchase Shares of Common Stock of the Company (incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K of the Company dated October 17, 2000 (No. 0-2791))
4.6	Trading Agreement, made as of October 17, 2000, between Augustine Fund, L.P. and the Company (incorporated by reference to Exhibit 4.5 to the Current Report on Form 8-K of the Company dated October 17, 2000 (No. 0-2791))
4.7	Securities Purchase Agreement dated July 31, 2001 between Electric City Corp. and Newcourt Capital USA, Inc., Duke Capital Partners, LLC, Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P. and EP Power Finance, L.L.C. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001 (File No. 0-2791)).
4.8	Investor Rights Agreement, dated as of July 31, 2001 made by and among Electric City Corp. and Newcourt Capital USA, Inc., Duke Capital Partners, LLC, Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P. and EP Power Finance, L.L.C. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001 (File No. 0-2791)).
4.9	Stockholders Agreement, dated as of July 31, 2001 made by and among Electric City Corp. and Newcourt Capital USA, Inc., Duke Capital Partners, LLC, Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P. and EP Power Finance, L.L.C. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001 (File No. 0-2791)).
4.10	Stock Trading Agreement, dated as of July 31, 2001 made by and among Electric City Corp. and Newcourt Capital USA, Inc., Duke Capital Partners, LLC, Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P. and EP Power Finance, L.L.C. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001 (File No. 0-2791)).

4.12 Registration Rights Agreement dated April 18, 2001 by and between Electric City Corp. and Newcourt Securities, Inc. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001 (File No. 0-2791)).

4.13 Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series A Convertible Preferred Stock of Electric City Corp. dated August 30, 2001 (Incorporated by reference to the Company's Amendment No. 1 to Registration Statement on Form SB-2 filed September 27, 2001 (No. 333-67642)).

4.14 Securities Purchase Agreement dated November 29, 2001 between Electric City Corp. and Leaf Mountain Company, LLC (Incorporated by reference to the Company's Amendment No. 2 to Registration Statement on Form SB-2 filed December 7, 2001 (No. 333-67642)).

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4.15 Consent and Amendment of Securities Purchase Agreement, Stock Trading Agreement, Stockholders Agreement and Investor Rights Agreement dated November 29, 2001 between Newcourt Capital Securities, Inc., Newcourt Capital USA, Inc., Duke Capital Partners, LLC, Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P., EP Power Finance, L.L.C., Electric City Corp. and Leaf Mountain Company, LLC (Incorporated by reference to the Company's Amendment No. 2 to Registration Statement on Form SB-2 filed December 7, 2001 (No. 333-67642)).

4.16 Joinder to Investor Rights Agreement, Stockholders Agreement and Stock Trading Agreement dated November 29, 2001 between Electric City Corp. and Leaf Mountain Company, LLC (Incorporated by reference to the Company's Amendment No. 2 to Registration Statement on Form SB-2 filed December 7, 2001 (No. 333-67642)).

4.17 Securities Purchase Agreement dated as of May 31, 2002 between Electric City Corp. and Richard Kiphart.(Incorporated by reference to the Company's Amendment No. 3 to Registration Statement on Form SB-2 filed July 16, 2002 (No. 333-67642)).

4.18 Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series C Convertible Preferred Stock of Electric City Corp. dated June 3, 2002. (Incorporated by reference to the Company's Amendment No. 3 to Registration Statement on Form SB-2 filed July 16, 2002 (No. 333-67642)).

4.19 Certificate of Correction Filed to Correct a Certain Error in the Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series C Convertible Preferred Stock of Electric City Corp. dated June 11, 2002 (Incorporated by reference to the Company's Amendment No. 3 to Registration Statement on Form SB-2 filed July 16, 2002 (No. 333-67642)).

4.19 Consent and Amendment, dated as of June 4, 2002, By and Among Electric City Corp., Newcourt Capital USA, Inc., EP Power Finance, L.L.C., Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P., Duke Capital Partners, LLC, Leaf Mountain Company, LLC, Newcourt Capital Securities, Inc., and Richard P. Kiphart. (Incorporated by reference to the Company's Amendment No. 3 to Registration Statement on Form SB-2 filed July 16, 2002 (No. 333-67642)).

4.20 Joinder and First Amendment to Stockholders Agreement, dated as of June 4, 2002, By and Among Electric City Corp., Newcourt Capital USA, Inc., EP Power Finance, L.L.C., Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P., Duke Capital Partners, LLC, Leaf Mountain Company, LLC, and Richard P. Kiphart. (Incorporated by reference to the Company's Amendment No. 3 to Registration Statement on Form SB-2 filed July 16, 2002 (No. 333-67642)).

4.21 Joinder and First Amendment to Investors Rights Agreement, dated as of June 4, 2002, By and Among Electric City Corp., Newcourt Capital USA, Inc., Newcourt Capital Securities, Inc., EP Power Finance, L.L.C., Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P., Duke Capital Partners, LLC, Leaf Mountain Company, LLC, and Richard P. Kiphart. (Incorporated by reference to the Company's Amendment No. 3 to Registration Statement on Form SB-2 filed July 16, 2002 (No. 333-67642)).

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4.22	Stock Trading Agreement, dated as of June 4, 2002, between Electric City Corp. and Richard P. Kiphart. (Incorporated by reference to the Company's Amendment No. 3 to Registration Statement on Form SB-2 filed July 16, 2002 (No. 333-67642)).
4.23	2001 Stock Incentive Plan (Incorporated by reference to the Company's definitive Proxy Statement for the 2000 Annual Meeting of Stockholders, filed August 14, 2001 (No. 0-2791))
4.24*	Securities Purchase Agreement dated December 16, 2002, between Electric City Corp. and Munder Power Plus Fund, A Series of the Munder Funds, Inc.
4.25*	Stock Trading Agreement dated December 16, 2002, between Electric City Corp. and Munder Power Plus Fund, A Series of the Munder Funds, Inc.
4.26*	Securities Purchase Agreement dated February 27, 2003, between Electric City Corp. and SF Capital Partners
4.27*	Stock Trading Agreement dated February 27, 2003, between Electric City Corp. and SF Capital Partners
10.1	Employment Agreement, dated as of November 19, 1999, between the Company and John Mitola (incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2000 (No. 0-2791))
10.4	Employment Agreement, dated as of January 14, 2000, between the Company and Jeffrey Mistarz (incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2000 (No. 0-2791))
10.20	Warrant Certificate to Purchase 3,314,830 Shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to Newcourt Securities, Inc. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2001 (No. 0-2791)).
10.21	Warrant Certificate to Purchase 750,000 shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to Newcourt Capital USA, Inc. (Incorporated by reference to the Company's Amendment No. 1 to Registration Statement on Form SB-2 filed September 27, 2001 (No. 333- 67642)).
10.22	Warrant Certificate to Purchase 712,500 shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to Morgan Stanley Dean Witter Equity Funding, Inc. (Incorporated by reference to the Company's Amendment No. 1 to Registration Statement on Form SB-2 filed September 27, 2001 (No. 333-67642)).
10.23	Warrant Certificate to Purchase 37,500 shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to Originators Investment Plan, L.P. (Incorporated by reference to the Company's Amendment No. 1 to Registration Statement on Form SB-2 filed September 27, 2001 (No. 333- 67642)).
10.24	Warrant Certificate to Purchase 750,000 shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to Duke Capital Partners, LLC (Incorporated by reference to the Company's Amendment No. 1 to Registration Statement on Form SB-2 filed September 27, 2001 (No. 333- 67642)).

10.25	Warrant Certificate to Purchase 750,000 shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to EP Power Finance, L.L.C. (Incorporated by reference to the Company's Amendment No. 1 to Registration Statement on Form SB-2 filed September 27, 2001 (No. 333- 67642)).
10.31	Warrant Certificate to Purchase 421,876 shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to Leaf Mountain Company, LLC. (Incorporated by reference to the Company's Amendment No. 2 to Registration Statement on Form SB-2 filed December 7, 2001 (No. 333- 67642)).
10.33	Warrant Certificate to Purchase 50,000 shares of Series C Convertible Preferred Stock Par Value $0.01 Per Share, of Electric City Corp. issued to Richard Kiphart (Incorporated by reference to the Company's Amendment No. 3 to Registration Statement on Form SB-2 filed July 16, 2002 (No. 333-67642)).
10.34	Warrant Certificate to Purchase 281,250 shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to Richard Kiphart. (Incorporated by reference to the Company's Amendment No. 3 to Registration Statement on Form SB-2

filed July 16, 2002 (No. 333-67642)).

10.35	Loan Agreement made and entered into on the 29th day of May, 2002, by and among American Chartered Bank, an Illinois banking association, Electric City Corp., Switchboard Apparatus, Inc. and Great Lakes Controlled Energy Corporation. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2002 (No. 0-2791))
10.36	Mortgage made as of the 29th day of May, 2002 by Electric City Corp. and American Chartered Bank. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2002 (No. 0-2791))
10.38	Revolving Note made and entered into on the 29th day of May, 2002, by and among American Chartered Bank and Electric City Corp., Switchboard Apparatus Inc. and Great Lakes Controlled Energy Corporation.
10.39	Mortgage Note made and entered into on the 29th day of May, 2002, by and among American Chartered Bank and Electric City Corp., Switchboard Apparatus Inc. and Great Lakes Controlled Energy Corporation.
10.40	Term Note made and entered into on the 29th day of May, 2002, by and among American Chartered Bank, an Illinois banking association, and Electric City Corp.
10.41	Security Agreement made and entered into on the 29th day of May, 2002, by and among American Chartered Bank, an Illinois banking association, and Electric City Corp.
10.42	Security Agreement made and entered into on the 29th day of May, 2002, by and among American Chartered Bank, an Illinois banking association, and Switchboard Apparatus, Inc.
10.43	Security Agreement made and entered into on the 29th day of May, 2002, by and among American Chartered Bank, an Illinois banking association, and Great Lakes Controlled Energy Corporation.
10.44	Stock Pledge Agreement made and entered into on the 29th day of May, 2002, by and between Electric City Corp., a Delaware corporation, and American Chartered Bank, an Illinois banking association.

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10.45*	Warrant Certificate to Purchase 300,000 shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to Munder Power Plus Fund, A Series of the Munder Funds, Inc.
10.46*	Warrant Certificate to Purchase 50,000 shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to Capstone Investments.
10.47*	Warrant Certificate to Purchase 300,000 shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to SF Capital Partners.
10.48*	Warrant Certificate to Purchase 50,000 shares of Common Stock Par Value $0.0001 Per Share, of Electric City Corp. issued to Capstone Investments.
10.49**	Employment Agreement, dated as of January 13, 2003, between the Company and John Mitola
21	List of subsidiaries (Incorporated by reference to the Company's Registration Statement on Form SB-2 filed August 16, 2001 (No. 333-67642)).
24	Power of Attorney (included on page 51 of this Annual Report on Form 10-KSB)
99.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (included on page 54 of this Annual Report on Form 10-KSB)

*

Filed herewith

**
Required to be filed with this report

(b)
We did not file any report on Form 8-K during the last quarter of the period covered by this report.

ITEM 14. Controls and Procedures

(a) Explanation of disclosure controls and procedures. Within the 90 days prior to the filing date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-14 of the Securities Exchange Act of 1934. Based on that evaluation, such officers concluded that, other than as disclosed below, the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports it files or submits under the Securities and Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms and are operating in an effective manner.

In addition, the Company's Chief Executive Officer and Chief Financial Officer considered the recommendations of the Company's external auditors made during the fiscal year's audit, which identified a material weakness in an internal control. The Company has implemented corrective action to address the material weakness identified.

(b) Changes in internal controls. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELECTRIC CITY CORP.

By: /s/ JOHN P. MITOLA

John P. Mitola
Chief Executive Officer

March 31, 2003

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

Signature	Date
/s/ JOHN P. MITOLA	March 31, 2003
John P. Mitola *Chief Executive Officer & Director* *(principal executive officer)*	
/s/ JEFFREY R. MISTARZ	March 31, 2003

Signature	Date
Jeffrey R. Mistarz *Chief Financial Officer* *(principal financial and accounting officer)*	

POWER OF ATTORNEY

The undersigned hereby constitutes and appoints John Mitola and Jeffrey Mistarz, and each of them, as his true and lawful attorneys-in-fact and agents, jointly and severally, with full power of substitution and resubstitution, for and in his stead, in any and all capacities, to sign on his behalf this Form 10-KSB, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission and granting unto said attorneys-in-fact and agents, and each of them, jointly and severally, the full power and authority to do and perform each and every act and thing necessary or advisable to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, jointly or severally, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOHN MITOLA John Mitola	Chief Executive Officer	March 24, 2003
/s/ JEFFREY MISTARZ Jeffrey Mistarz	Chief Financial Officer & Treasurer	March 24, 2003
/s/ ROBERT MANNING Robert Manning	Chairman of the Board	March 25, 2003
/s/ FREDERIC BRACE Frederic Brace	Director	March 24, 2003
/s/ W. SCOTT HARLAN W. Scott Harlan	Director	March 24, 2003
/s/ KEVIN MCENEELY Kevin McEneely	Director	March 25, 2003
/s/ MICHAEL STELTER Michael Stelter	Director	March 26, 2003
/s/ ROBERT WAGNER, JR. Robert Wagner, Jr.	Director	March 25, 2003

Certification

I, John P. Mitola, certify that:

1. I have reviewed this annual report on Form 10-K of Electric City Corp.;

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 officer 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 we have:

   a. designed such disclosure controls and procedures to ensure the 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 officer 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 function):

   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 weakness 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 officer and I have indicated in this annual report whether or not 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.

Date: March 31, 2003

/s/ JOHN P. MITOLA

Chief Executive Officer

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Certification

I, Jeffrey R. Mistarz, certify that:

1. I have reviewed this annual report on Form 10-K of Electric City Corp.;

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 officer 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 we have:

   a. designed such disclosure controls and procedures to ensure the 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 officer 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 function):

   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 weakness 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 officer and I have indicated in this annual report whether or not 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 weakness.

Date: March 31, 2003

/s/ JEFFREY R. MISTARZ

Chief Financial Officer and Treasurer

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Exhibit 99.1

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350, as adopted), John P. Mitola, the Chief Executive Officer of Electric City Corp. (the "Company"), and Jeffrey R, Mistarz, the Chief Financial Officer of the Company, each hereby certifies that, to his knowledge:

1. The Company's Annual Report on Form 10-KSB for the year ended December 31, 2002, to which this Certification is attached as Exhibit 99.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the periods covered by the Periodic Report and the results of operations of the Company for the periods covered by the Periodic Report.

This certification accompanies the Periodic Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

In Witness Whereof, the undersigned have set their hands hereto as of the 31st day of March, 2003.

/s/ JOHN P. MITOLA

John P. Mitola
Chief Executive Officer

/s/ JEFFREY R. MISTARZ

Jeffrey R. Mistarz
Chief Financial Officer

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Report of Independent Certified Public Accountants

Electric City Corp.
Elk Grove Village, Illinois

We have audited the accompanying consolidated balance sheets of Electric City Corp. as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Electric City Corp. at December 31, 2002 and 2001, and the consolidated results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses and negative cash flow from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002.

BDO SEIDMAN, LLP

Chicago, Illinois
February 21, 2003, except
Note 20, which is as of
February 27, 2003

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Electric City Corp.

Consolidated Balance Sheets

	December 31,			
	2002		2001	
Assets				
Current Assets				
Cash and cash equivalents	$	1,555,904	$	5,486,073
Accounts receivable, less allowance for doubtful accounts of $410,000 and $256,000 at December 31, 2002 and 2001, respectively (Note 18)		2,681,772		2,772,773
Inventories (Note 5)		2,596,218		1,654,634
Prepaid expenses and other, including $31,000 notes receivable From employees as of December 31, 2001		116,210		128,849
Total Current Assets		6,950,104		10,042,329
Net Property and Equipment (Note 6)		1,539,919		1,767,576
Cost in Excess of Assets Acquired		416,573		4,623,445
Other Assets		1,955		2,513
	$	8,908,551	$	16,435,863

See accompanying notes to consolidated financial statements.

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Electric City Corp.

Consolidated Balance Sheets

	December 31, 2002		December 31, 2001	
Liabilities and Stockholders' Equity				
Current Liabilities				
Line of credit (Note 9)	$	500,000	$	
Current maturities of long-term debt (Note 11)		148,531		356,438
Accounts payable		1,732,719		1,310,852
Accrued expenses (Note 7)		972,584		417,397
Deferred revenue		50,000		487,596
Total Current Liabilities		3,403,834		2,572,283
Deferred Revenue		279,166		329,167
Long-Term Debt, less current maturities (Note 11)		941,260		1,077,580
Commitments (Note 14)				
Stockholders' Equity (Notes 15, 16 and 17)				
Preferred stock, $.01 par value; 5,000,000 shares authorized,				
Series A 2,171,192 and 1,966,993 issued and outstanding as of December 31, 2002 and December 31, 2001, respectively (liquidation value of $43,424,000 and $39,340,000 at December 31, 2002 and December 31, 2001, respectively)		21,712		19,670
Series C 211,643 and 0 issued and outstanding as of December 31, 2002 and December 31, 2001, respectively (liquidation value of $4,233,000 and $0 at December 31, 2002 and December 31, 2001, respectively)		2,116		
Common stock, $.0001 par value; 120,000,000 shares authorized, 32,283,335 issued as of December 31, 2002 and 31,113,842 issued as of December 31, 2001		3,229		3,112
Additional paid-in capital		47,150,313		44,215,331
Accumulated deficit		(42,884,579)		(31,772,780)
		4,292,791		12,465,333
Less treasury stock, at cost, 1,000 shares as of December 31, 2002 and December 31, 2001		(8,500)		(8,500)
Total Stockholders' Equity		4,284,291		12,456,833
	$	8,908,551	$	16,435,863

See accompanying notes to consolidated financial statements.

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Electric City Corp.

Consolidated Statements of Operations

	Year ended December 31, 2002	Year ended December 31, 2001

	Year ended December 31, 2002	Year ended December 31, 2001
Revenue	$ 11,766,272	$ 9,624,206
Expenses		
Cost of sales	11,460,423	9,187,341
Selling, general and administrative	7,150,043	9,946,324
Impairment Loss	108,000	
	18,718,466	19,133,665
Operating loss	(6,952,194)	(9,509,459)
Other Income (Expense)		
Interest income	23,275	71,322
Interest expense	(79,008)	(3,532,940)
Total other income (expense)	(55,733)	(3,461,618)
Loss before cumulative effect of accounting change	(7,007,927)	(12,971,077)
Cumulative effect of accounting change	(4,103,872)	
Net Loss	(11,111,799)	(12,971,077)
Less Preferred Stock Dividends	(4,111,107)	(20,118,939)
Net Loss Available to Common Shareholders	$ (15,222,906)	$ (33,090,016)
Basic and diluted loss per common share before cumulative accounting change	$ (0.36)	$ (1.10)
Cumulative effect of accounting change	(0.13)	
Basic and Diluted Loss Per Common Share	$ (0.49)	$ (1.10)
Weighted Average Common Shares Outstanding	31,213,165	30,048,043

See accompanying notes to consolidated financial statements.

Electric City Corp.

Consolidated Statements of Stockholders' Equity

	Common Shares	Common Stock	Series A Preferred Shares	Series A Preferred Stock	Series B Preferred Shares	Series B Preferred Stock	Series C Preferred Shares	Series C Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2000	28,944,755	$ 2,894		$	2,000	$ 20		$	$ 22,456,335	$ (18,801,703)	$ (8,500)	$ 3,649,046
Release of shares subject to rescission	10,000	1							44,999			45,000
Issuance of Series A Convertible Preferred Stock for cash (net of offering costs of $546,511)			1,500,000	15,000					14,438,489			14,453,489
Issuance of common stock to purchasers of Series A Convertible Preferred Stock	365,990	37							(37)			
Conversion of Sr. Subordinated Promissory Note to Series A Convertible Preferred Stock			320,000	3,200					3,196,800			3,200,000
Shares of Series A Convertible Preferred Stock issued as commission on placement of Series A Convertible Preferred Stock			80,000	800					(800)			
Shares issued for acquisition of Great Lakes Controlled Energy Corporation	212,904	21							678,479			678,500
Conversion of Series B Preferred Stock	1,472,244	147			(2,000)	(20)			(127)			
Cumulative dividends on Series A Preferred Stock									(669,933)			(669,933)
Satisfaction of accrued dividends through the issuance Preferred stock			66,993	670					669,263			669,933
Cumulative dividends on Series B Preferred Stock									(73,206)			(73,206)
	56,765	6							106,076			106,082

	Common Shares	Common Stock	Series A Preferred Shares	Series A Preferred Stock	Series B Preferred Shares	Series B Preferred Stock	Series C Preferred Shares	Series C Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
Satisfaction of accrued dividends through the issuance of common stock												
Issuance of shares in exchange for services received	25,500	3							59,809			59,812
Warrants issued in exchange for services received									392,187			392,187
Warrants issued in connection with Senior Subordinated Convertible Promissory Note									2,917,000			2,917,000
Issuance of shares upon cashless exercise of warrant	25,684	3							(3)			
Net loss for the year ended December 31, 2001										(12,971,077)		(12,971,077)
Balance, December 31, 2001	31,113,842	$ 3,112	1,966,993	$ 19,670		$		$	$ 44,215,331	$ (31,772,780)	$ (8,500)	$ 12,456,833
Issuance of Series C Convertible Preferred Stock for cash (net of offering costs of $119,743)							200,000	2,000	1,878,257			1,880,257
Issuance of common stock to purchasers of Series C Convertible Preferred Stock	30,082	3							(3)			
Issuance of common stock (net of offering costs of $80,000)	1,086,957	109							919,891			920,000
Cumulative dividends on Preferred Stock									(2,158,418)			(2,158,418)
Satisfaction of accrued dividends through the issuance of preferred stock			204,199	2,042			11,643	116	2,156,260			2,158,418

	Common Shares	Common Stock	Series A Preferred Shares	Series A Preferred Stock	Series B Preferred Shares	Series B Preferred Stock	Series C Preferred Shares	Series C Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
Short-swing profit contribution									1,300			1,300
Warrants issued in exchange for services received									80,000			80,000
Exercise of warrant in exchange for services received	52,454	5							57,695			57,700
Net loss for the year ended December 31, 2002										(11,111,799)		(11,111,799)
Balance, December 31, 2002	32,283,335	$ 3,229	2,171,192	$ 21,712		$	211,643	$ 2,116	$ 47,150,313	$ (42,884,579)	$ (8,500)	$ 4,284,291

See accompanying notes to consolidated financial statements.

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Electric City Corp.

Statements of Cash Flows

	Year ended December 31, 2002	Year ended December 31, 2001
Cash Flows From Operating Activities		
Net loss	$ (11,111,799)	$ (12,971,077)
Adjustments to reconcile net loss to net cash used in operating activities, net of assets acquired:		
Cumulative effect of accounting change	4,103,872	
Provision for bad debts	343,160	153,031
Depreciation and amortization	232,051	813,741
Amortization of capitalized cost of financing		186,653
Amortization of original issue discount		2,917,000
Issuance of shares and warrants in exchange for services received	137,700	451,999
Accrued interest on notes payable		103,807
Impairment of goodwill	108,000	
Loss on disposal of fixed assets	3,151	9,586
Changes in assets and liabilities, net of acquisition		
Accounts receivable	(252,138)	(138,758)
Inventories	(941,584)	370,719
Other current assets	12,639	171,771
Accounts payable	416,867	(1,419,703)
Accrued liabilities	555,167	(875,940)
Deferred revenue	(487,597)	387,596

	Year ended December 31, 2002	Year ended December 31, 2001
Net cash used in operating activities	(6,880,511)	(9,839,575)
Cash Flows From Investing Activities		
Proceeds from sale of fixed assets	10,500	52,099
Purchase of property and equipment	(17,487)	(121,586)
Net cash provided by (used in) investing activities	(6,987)	(69,487)
Cash Flows From Financing Activities		
Payment of amounts due sellers	(219,067)	(489,647)
Borrowings (payments) on line of credit	500,000	(852,200)
Proceeds from long-term debt	1,135,000	551,414
Proceeds from issuance of senior subordinated convertible promissory note		3,200,000
Payments on long-term debt	(1,260,161)	(554,044)

See accompanying notes to consolidated financial statements.

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	Year ended December 31, 2002	Year ended December 31, 2001
Payment of note payable to distributors	$	$ (1,356,660)
Proceeds from issuance of preferred stock	2,000,000	15,000,000
Proceeds from issuance of common stock	1,000,000	
Issuance costs related to stock issuances	(199,743)	(546,511)
Short-swing profit contribution	1,300	
Cash paid for deferred financing fees		(186,653)
Net cash provided by financing activities	2,957,329	14,765,699
Net (Decrease) Increase in Cash and Cash Equivalents	(3,930,169)	4,856,637
Cash and Cash Equivalents, at beginning of period	5,486,073	629,436
Cash and Cash Equivalents, at end of period	$ 1,555,904	$ 5,486,073
Supplemental Disclosures of Cash Flow Information		
In June 2001, the Company purchased Great Lakes Controlled Energy Corporation for 212,904 shares of the Company's common stock valued at $678,500. The related assets and liabilities at the date of acquisition were as follows:		
Accounts receivable (including $161,603 due from Company)		$ 337,358
Inventory		25,000
Property and equipment		3,011
Cost in excess of assets acquired		551,573

	Year ended December 31, 2002	Year ended December 31, 2001
Assets acquired		916,942
Accounts payable		(45,396)
Accrued expenses		(193,046)
Stock issued to seller		(678,500)
		$

See accompanying notes to consolidated financial statements.

	Year ended December 31, 2002		Year ended December 31, 2001	
Supplemental Disclosures of Cash Flow Information				
Cash paid during the period for interest	$	75,000	$	431,000
Supplemental Disclosures of Noncash Investing and Financing Activities				
Stock, warrants and options issued in exchange for services received	$	137,700	$	451,999
Accrual satisfied through the issuance of common stock				32,876
Satisfaction of accrued dividends on Series A Preferred Stock through the issuance of 204,199 and 66,993 shares of Series A Preferred stock during the years ended December 31, 2002 and 2001 respectively		2,041,992		669,933
Satisfaction of accrued dividends on Series B Preferred Stock through the issuance of 56,765 shares of common stock during the year ended December 31, 2001				106,082
Satisfaction of accrued dividends on Series C Preferred Stock through the issuance of 11,643 shares of Series C Preferred stock during the year ended December 31, 2002		116,426		

In September 2001 the holder of the Senior Subordinated Promissory Notes with a face value of $3.2 million elected to convert the Notes into 320,000 shares of the Company's Series A Convertible Preferred stock.

See accompanying notes to consolidated financial statements.

Electric City Corp.

Notes to Consolidated Financial Statements

Note 1 Description of Business

Electric City Corp. (the "Company"), a Delaware corporation, develops, manufactures and distributes energy saving technologies and power distribution products and is an integrator of building environmental control systems. The Company is made up of three separate companies, each comprising a distinct business segment: Electric City Corp. comprises the power conservation segment; Switchboard Apparatus Inc. is in the power distribution segment and Great Lakes Controlled Energy Corp. is in the building controls segment. These three companies operate out of separate facilities all located in the Chicago metropolitan area.

Note 2 Basis of Presentation

The accompanying consolidated financial statements have been prepared on the going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has experienced operating losses and negative cash flow from operations since inception and currently has an accumulated deficit. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is ultimately dependent on its ability to obtain additional funding and increase sales to a level that will allow it to operate profitably and sustain positive operating cash flows. Management is in the process of negotiating additional funding through the issuance of additional equity and continues its efforts to improve profitability through expansion of the Company's business in both current and new markets. In February 2003, the Company was successfully in raising $1 million through a private equity placement (see note 20), however, there is no assurance that the Company will continue to be successful in obtaining additional funding in the future or improving it's operating results. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

Note 3 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Electric City Corp. and its wholly owned subsidiaries, Switchboard Apparatus, Inc., and Great Lakes Controlled Energy Corp. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

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

Cash and Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Concentration of Risk

The Company's customers are primarily distributors of its EnergySaver product line, building owners, electrical contractors and OEM manufacturers of electrical distribution products. No single customer accounted for more than 10% of the Company's consolidated revenue during the year ended December 31, 2002, while one customer accounted for approximately 13% of the Company's consolidated revenue during the year ended December 31, 2001.

The Company purchases its raw materials from a variety of suppliers and continues to seek out alternate suppliers for critical components so that it can be assured that its manufacturing processes will not be interrupted by the inability of a single supplier to deliver product. During the year ended December 31, 2002, no single supplier accounted for more than 10% of the Company's total material purchases. During the year ended December 31, 2001, one supplier accounted for approximately 16% of the Company's total material purchases.

The Company maintains cash and cash equivalents in accounts with a financial institution in excess of the amount insured by the Federal Deposit Insurance Corporation. The Company monitors the financial stability of this institution regularly and management does not believe there is significant credit risk associated with deposits in excess of federally insured amounts.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based on specifically identified amounts that it believes to be uncollectible. If actual collections experience changes, revisions to the allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to us, we believe our allowance for doubtful accounts is adequate. However, actual write-offs might exceed the recorded allowance.

Inventories

Inventories are stated at the lower of FIFO cost or market.

Properties & Equipment

Property and equipment are stated at cost. For financial reporting purposes depreciation is computed over the estimated useful lives of the assets by the straight-line method over the following lives:

Buildings	39 years
Computer equipment	3 years
Office Equipment	5 years
Furniture	5 - 10 years
Manufacturing equipment	3 - 5 years
Transportation equipment	3 years

Cost in Excess of Assets Acquired

Goodwill represents the purchase price in excess of the fair value of assets acquired in business combinations. Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets", requires the Company to assess goodwill for impairment at least annually in the absence of an indicator of possible impairment and immediately upon an indicator of possible impairment. If it is determined that the fair values are less than the carrying amount of goodwill recorded on its Consolidated Balance Sheet, the Company must recognize an impairment in its financial statements (see summary of accounting principal regarding impairment of long-live assets). With the adoption of SFAS 142, goodwill is no longer amortized. Prior to the adoption we amortized goodwill over a ten-year period using a straight-line method.

Impairment of Long-Lived Assets and Goodwill.

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those items. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Our estimates of fair value represent our best estimate based on industry trends and reference to market rates and transactions. The Company had made acquisitions in the past that included a significant amount of goodwill and other intangible assets. Under generally accepted accounting principles in effect through December 31, 2001, these assets were amortized over their estimated useful lives, and were tested periodically to determine if they were recoverable from operating earnings on an undiscounted basis over their useful lives. Effective in 2002, goodwill is no longer amortized but is subject to an annual (or under certain circumstances more frequent) impairment test based on its estimated fair value. Other intangible assets that meet certain criteria will continue to be amortized over their useful lives and will also be subject to an impairment test based on undiscounted cash flows. Estimated fair value is less than values based on undiscounted operating earnings because fair value estimates include a discount factor in valuing future cash flows. There are many assumptions and estimates underlying the determination of an impairment loss. Another estimate using different, but still reasonable, assumptions could produce a significantly different result. During the year ended December 31, 2002 the Company determined that the carrying value of goodwill associated with its power management business exceeded the fair value and as a result recognized an transitional impairment loss of $4,103,872, which was recorded as a cumulative effect of a change in an accounting principle. As part of the 2002 year-end assessment of the estimated fair value of its goodwill the Company determined that the carrying value of the goodwill associated with the building automation and control business exceeded the fair value by $108,000. This difference between the carrying value and the estimated fair value of the goodwill was recorded as an impairment loss in 2002. It is possible that upon completion of future impairment tests, as the result of changes in facts or circumstances, the Company may have to take additional charges to recognize a further write-down of the value of our acquisitions to their estimated fair values.

Revenue Recognition

The Company recognizes revenue when all four of the following criteria are met: (i) persuasive evidence has been received that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectibility is reasonably assured. In addition, the Company follows the provisions of the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, Revenue Recognition, which sets forth guidelines in the timing of revenue recognition based upon factors such as passage of title, installation, payments and customer acceptance. Any amounts received prior to satisfying the Company's revenue recognition criteria is recorded as deferred revenue in the accompanying balance sheet.

Revenues and profits on long-term contracts are recorded under the percentage of completion, cost-to-cost method of accounting. Any anticipated losses on contracts are charged to operations as soon as they are determinable.

Shipping and Handling Costs

The Company classifies freight costs billed to customers as revenue. Costs related to freight are classified as cost of sales.

Research and Development Costs

Research and development costs are charged to operations when incurred and are included in selling, general and administrative expenses. Total research and development costs charged to operations were $65,000 and $289,000 for the periods ended December 31, 2002 and December 31, 2001, respectively.

Advertising, Marketing and Promotional Costs

Expenditures on advertising, marketing and promotions are charged to operations in the period incurred and totaled $33,000 and $46,000 for the periods ended December 31, 2002, December 31, 2001, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for the tax consequences in future years of the differences between the tax basis of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable earnings. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized.

Net Loss Per Share

The Company computes loss per share under Statement of Financial Accounting Standards No. 128, "Earnings Per Share." The statement requires presentation of two amounts; basic and diluted loss per share. Basic loss per share is computed by dividing the loss available to common stockholders by the weighted average common shares outstanding. Dilutive earnings per share would include all common stock equivalents. The Company has not included the outstanding options, warrants, or convertible preferred stock as common stock equivalents because the effect would be antidilutive.

The following table sets forth the weighted average shares issuable upon exercise of outstanding options and warrants and conversion of preferred stock that is not included in the basic and diluted net loss per share available to common stockholders:

	December 31,	
	2002	2001
Weighted average shares issuable upon exercise of outstanding options	9,227,761	9,425,164
Weighted average shares issuable upon exercise of outstanding warrants	11,247,819	4,989,584
Weighted average shares issuable upon conversion of preferred stock	21,464,327	6,023,535

	December 31,	
Total	41,949,291	20,438,283

Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of these amounts. The Company's long-term debt approximates fair value based on instruments with similar terms.

Stock-based Compensation

At December 31, 2002, the Company has a stock-based compensation plan, which is described in Note 17. The Company applies and intends to continue to apply the recognition and intrinsic value measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for those plans. No stock-based compensation expense was reflected in the 2002 or 2001 net loss as all options granted during those years had an exercise price equal to or greater than the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on the net loss and earnings per

share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based compensation:

	Year ended December 31, 2002	Year ended December 31, 2001
Net Loss, as reported	$ (11,112,000)	$ (12,971,000)
Deduct: Stock-based employee compensation expense included in reported net loss		
Add: Total stock-based employee compensation expense determined under fair value based method for awards(1)	(1,990,000)	(4,217,000)
Pro forma net loss	$ (13,102,000)	$ (17,188,000)
Net loss per share		
Basic and diluted as reported	$ (0.49)	$ (1.10)
Basic and diluted pro forma	$ (0.55)	$ (1.24)

(1) All awards refer to awards granted, modified, or settled in fiscal periods beginning after December 15, 1994 that is, awards for which the fair value was required to be measured and disclosed under Statement 123.

Warranty Obligations

The Company warrants to the purchasers of its EnergySaver line of products that the product will be free of defects in material and workmanship for one year from the date of installation. The Company records the estimated cost that may be incurred under its warranties at the time the product revenue is recognized based upon the relationship between historical and anticipated warranty costs and sales volumes. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. While the Company believes that its estimated liability for product warranties is adequate and that the judgment applied is appropriate, the estimated liability for product warranties could differ materially from actual future warranty costs. See Note 8 for additional information about the Company's warranty liability.

Recent Accounting Pronouncements

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 15, 2001. In accordance with SFAS No. 142, the Company completed its transitional impairment testing of intangible assets during the second quarter of fiscal 2002. The impairment testing was performed in two steps: first, determining whether there was an impairment, based upon the fair value of a reporting unit as compared to its carrying value, and second, if there was an impairment, the determination of the impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. Subsequent to the first quarter of fiscal 2002, with the assistance of a third-party valuation firm, the Company finalized the testing of goodwill subject to SFAS 142. Using conservative, but realistic assumptions to model its power management business and building control and automation business, it determined that the carrying value of the power management business was greater than the

derived fair value, indicating an impairment in the recorded goodwill. To determine fair value, the Company relied on a discounted cash flow analysis. For goodwill valuation purposes only, the revised fair value of this unit was allocated to the assets and liabilities of the reporting unit to arrive at an implied fair value of goodwill, based upon known facts and circumstances, as if the acquisition occurred currently. The allocation resulted in a write-down of recorded goodwill in the amount of $4,103,872, which was recorded as a cumulative effect of a change in an accounting principle. As part of the 2002 year-end assessment of the fair value of its goodwill the Company determined that the carrying value of the goodwill associated with the building automation and control business exceeded the fair value by $108,000. This difference between the carrying value and the estimated fair value of the goodwill was recorded as an impairment loss in 2002.

In addition, SFAS 142 provides that goodwill no longer be amortized, and as a result, the Company recorded no goodwill amortization during 2002, whereas the Company had recorded approximately $555,000 of goodwill amortization during 2001. For comparative purposes, the following schedule provides a reconciliation of reported net income to adjusted net income for the twelve months ended December 31, 2002 and 2001, adjusted to exclude goodwill amortization.

	Year ended December 31,	
	2002	**2001**
Loss before cumulative effect of accounting change, as reported	$ (7,008,000)	$ (12,971,000)
Amortization of goodwill		555,000
Adjusted net loss	$ (7,008,000)	$ (12,416,000)
Basic and diluted loss per common share before cumulative accounting change	$ (0.36)	$ (1.10)
Amortization of goodwill		0.02
Adjusted	$ (0.36)	$ (1.08)

The changes in the carrying amount of goodwill during 2002 by reportable segment are summarized as follows:

	Energy Technology	**Power Management(1)**	**Building Automation Controls(2)**	**Total**
Balance as of December 31, 2001	$	$ 4,103,872	$ 519,573	$ 4,623,445
Adjustment to initial purchase accounting			5,000	5,000
Impairment losses		(4,103,872)	(108,000)	(4,211,872)
Balance as of December 31, 2002	$	$	$ 416,573	$ 416,573

(1) Includes goodwill resulting from the acquisitions of Marino Electric and Switchboard Apparatus.

(2) Includes goodwill resulting from the acquisition of Great Lakes Controlled Energy.

In August 2001, the FASB issued SFAS No. 143, "Accounting For Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period incurred. SFAS No. 143, which is effective for fiscal years beginning after June 15, 2002, is not expected to have a material impact on the Company.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 covers, among other things, the rescission of SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt." Under SFAS No. 4, all gains and losses from the extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item in the statement of operations. By rescinding SFAS 4, SFAS No. 145 eliminates the requirement for treatment of extinguishments as extraordinary items. Most of the transition provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002 and certain provisions are effective for transactions entered into after May 15, 2002. At this time, the Company does not believe that this new standard will have a material effect on its financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting Costs Associated with Exit or Disposal Activities". SFAS No. 146 revises the accounting for exit and disposal activities under Emerging Issues Task Force Issue 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity" (EITF Issue No. 94-3), by spreading out the reporting of expenses related to restructuring activities. Commitment to a plan to exit an activity or dispose of long-lived assets will no longer be sufficient to record a one-time charge for most anticipated costs. Instead, companies will record exit or disposal costs when they are "incurred" and can be measured at fair value, and they will subsequently adjust the recorded liability for changes in estimated cash flows. The provisions of SFAS No. 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002. Companies may not restate previously issued financial statements for the effect of the provisions of SFAS No. 146 and liabilities that a company previously recorded under EITF Issue No. 94-3 are grandfathered. The Company expects that the effects of adoption, if any, would relate solely to exit or disposal activities undertaken after December 31, 2002.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" ("SFAS No. 148"), which amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") to provide alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS No. 148 amends Accounting Principles Board Opinion No. 28, "Interim Financial Reporting" ("APB Opinion No. 28") to require disclosure about those effects in interim financial information. SFAS No. 148's amendment of the transition and disclosure requirements of SFAS No. 123 are effective for fiscal years ending after December 15, 2002, with earlier application permitted. SFAS No. 148's amendment of the disclosure requirements of APB Opinion No. 28 is effective for interim periods beginning after December 15, 2002. The Company does not plan to change

to the fair value method of accounting, but has adopted the disclosure requirements of SFAS No. 148 during 2002.

In November 2002, FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was issued. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The required disclosures and a roll-forward of product warranty liabilities are effective for financial statements of interim or annual periods ending after December 15, 2002. At this time, the Company does not believe that the adoption of this interpretation will have a material effect on its financial statements.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities, an interpretation of ARB 51. The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The Company is currently evaluating the impact of FIN 46 on its financial statements, but does not expect that there will be any material impact.

Note 4 Acquisition of Great Lakes Controlled Energy

Effective June 7, 2001, the Company acquired Great Lakes Controlled Energy Corporation ("Great Lakes"), a building and environmental control systems integrator, from Great Lake's shareholders (the "Sellers") for an aggregate purchase price of $678,500 which was paid to the Sellers in the form of 212,904 shares of the Company's common stock. The purchase price, which was arrived at through arms' length negotiations between Electric City and the Sellers, was based on the average closing price of the Company's common stock for a 120 day period immediately prior to the closing. Great Lakes is currently operated as a wholly-owned subsidiary of the Company.

The acquisition was recorded using the purchase method of accounting. The Company's statement of operations for the year ended December 31, 2001 includes the results of Great Lakes from the date of the acquisition. Due to the insignificance of the acquisition to the Company's consolidated financial statements, proforma financial information has not been presented for this acquisition.

Note 5 Inventories

Inventories consisted of the following:

	December 31,	
	2002	2001
Raw materials	$ 1,488,886	$ 1,425,568
Work in process	29,857	28,592
Finished goods	1,077,475	200,474
	$ 2,596,218	$ 1,654,634

Note 6 Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2002	2001
Land	$ 205,000	$ 205,000
Building	1,048,381	1,046,039
Furniture	111,030	107,266
Manufacturing equipment	588,607	630,453
Computer equipment	191,523	180,143
Transportation equipment	67,260	67,260
	2,211,801	2,236,161
Less accumulated depreciation	671,882	468,585

	December 31,	
	$ 1,539,919	$ 1,767,576

Note 7 Accrued Expenses

Accrued expenses are comprised of the following:

	December 31,	
	2002	2001
Compensation	$ 108,342	$ 97,890
Contract labor	438,698	
Interest	6,252	1,771
Insurance	11,070	
Real estate taxes	73,726	70,781
Commissions	98,890	83,504
Sales tax payable	59,635	71,007
Accrued royalties	5,400	18,900
Warranty reserve	107,127	60,394
Other	63,444	13,150
	$ 972,584	$ 417,397

Note 8 Warranty Liability

Changes in the Company's warranty liability are as follows:

	December 31,	
	2002	2001
Balance, beginning of year	$ 60,394	$ 54,621
Warranties issued	82,000	44,250
Settlements	(35,267)	(38,477)
Balance, end of year	$ 107,127	$ 60,394

Note 9 Line of Credit

On May 29, 2002 the Company closed on a new credit facility with American Chartered Bank. The new facility included a $400,000 equipment loan, a mortgage on its facility in Elk Grove Village Illinois in the amount of $735,000, and a $2,000,000 revolving line of credit. The revolving credit line replaced an expiring credit line the Company had with American National Bank. The American Chartered Bank revolver has a term of one year, with an interest rate equal to the prime rate plus 1/4%, and is secured by accounts receivable. As of December 31, 2002 the prime rate was 4.25%, the unused portion of the revolver was $1.5 million and there was $225,000 of borrowing base availability. The loan agreements contain covenants that require the Company to maintain a certain level of tangible net worth and working capital. As of December 31, 2002 the Company was in violation of the tangible net worth covenant, but American Chartered Bank waived the covenant violation.

Note 10 Senior Subordinated Promissory Note

In September 2000, the Company retained Newcourt Capital Securities, Inc. ("Newcourt Capital Securities"), an affiliate of CIT Group, Inc., to act as its exclusive placement agent in an effort to raise additional equity to improve the Company's liquidity and provide the growth capital required to support the execution of its business plan. To provide liquidity during the equity raising process, the Company issued to Newcourt Capital USA, Inc. ("Newcourt Capital USA"), also an affiliate of CIT Group, Inc., three Senior Subordinated Convertible Promissory Notes (the "Notes"), in the principal amounts of $1,000,000, $1,000,000 and $1,200,000, on April 18, June 8 and July 31, 2001, respectively. These Notes were convertible, at the option of Newcourt Capital USA, into shares of the Company's Series A Convertible Preferred Stock at a conversion price of $10 per share. The Notes bore interest at the rate of prime plus 3%. Along with the Note issued in April, Newcourt Capital USA received warrants to purchase 1,700,000 shares of our common stock. The warrants had an exercise price of $2.50, a term of two years and were valued at $1,717,000 using a modified Black-Sholes option pricing model. The fair value of these warrants was recorded as a discount on the related debt and was amortized over the life of the debt using the interest method. With the issuance of the third Note in July, the warrants issued to Newcourt Capital USA were surrendered and replaced with warrants issued to Newcourt Capital Securities to purchase 3,314,830 shares of our common stock at $1.00 per share over a seven-year period. These warrants were valued at $1,200,000 using a modified Black-Sholes option pricing model, and were amortized over the life of the Note using the interest method. The Notes were converted into 320,000 shares of Series A Convertible Preferred Stock on September 7, 2001, concurrent with the closing of the Company's Series A Convertible Preferred Stock transaction. Accrued interest of $76,050 was paid in cash on the date of conversion.

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Note 11 Long Term Debt

The Company's long term debt consists of the following:

	December 31,	
	2002	2001
Mortgage note to American Chartered Bank, prime (4.25%) plus 1/2%, payable in monthly installments of $3,000, plus interest until April 2004. A final payment of $666,000 is due in April 2004. This note is collateralized by the building and land.	$ 714,000	$
Term note to American Chartered Bank, interest rate equal to the prime rate (4.25%) plus 1/2%, payable in monthly installments of $8,500 plus interest. A final payment of $213,000 is due in April 2004. The note is collateralized by a general lien on all of the Company's assets.	340,500	
Mortgage note to CIB Bank, 8.25%, refinanced during 2002.		738,818
Term note to American National Bank, refinanced during 2002.		425,000
Term note to Joseph Marino		219,067
Various other notes	35,291	51,133
Total long-term debt	1,089,791	1,434,018
Less current portion	148,531	356,438
	$ 941,260	$ 1,077,580

The aggregate amounts of long-term debt maturing in each of the next five years are as follows:

2003	$	148,531
2004		925,176
2005		9,393
2006		6,691
2007		
	$	1,089,791

Note 12 Lease Commitments

The Company leases its manufacturing facility located in Broadview, Illinois from the former owners of Switchboard, one of which is currently an employee of the Company. The Company also leases a facility in Elk Grove Village, Illinois from the two former owners of Great Lakes Controlled Energy Corporation, both of whom are currently employees of the Company. Total rent expense for these facilities amounted to $237,000 and $181,000 for the years ended December 31, 2002 and

December 31, 2001, respectively. The Company also leases certain vehicles, office equipment and a forklift.

Future minimum rentals to be paid by the Company as of December 31, 2002 are as follows:

	Year ending December 31,		
	Related Party	Unrelated Party	Total
2003	$ 240,000	$ 13,267	$ 253,267
2004	90,000	8,246	98,246
2005		3,127	3,127
2006			
Total	$ 330,000	$ 24,640	$ 354,640

Note 13 Income Taxes

The composition of income tax expense (benefit) is as follows:

	Year ended December 31	
	2002	2001
Deferred		
Federal	$ (3,145,000)	$ (4,268,000)
State	(555,000)	(753,000)
Change in valuation allowance	3,700,000	5,021,000
Benefit for income taxes	$	$

Significant components of the Company's deferred tax asset are as follows:

December 31	
2002	2001

	December 31	
Net operating loss	13,607,000	10,870,000
Goodwill	998,000	113,000
Other	195,000	117,000
Less valuation allowance	(14,800,000)	(11,100,000)
Total net deferred tax asset	$	$

The Company has recorded a valuation allowance equaling the deferred tax asset due to the uncertainty of its realization in the future. At December 31, 2002, the Company has U.S. federal net operating loss carryforwards available to offset future taxable income of approximately $34,500,000, which expire in the years 2018 through 2022.

The reconciliation of income tax expense (benefit) to the amount computed by applying the federal statutory rate is as follows:

	Year ended December 31,	
	2002	**2001**
Income tax (benefit) at federal statutory rate	$ (3,778,000)	$ (4,410,000)
State taxes (net of federal tax benefit)	(561,000)	(511,000)
Other nondeductible expenses (primarily Nondeductible goodwill impairment)	639,000	
Increase in valuation allowance	3,700,000	5,021,000
Income tax expense (benefit)	$	$

Note 14 Commitments

a) Pursuant to the License Agreement dated January 1, 1998 and amended in January 2000 between Giorgio Reverberi ("Reverberi"), the owner of the patent relating to the EnergySaver, and Joseph Marino, Chairman and former CEO of Electric City (who assigned the rights to the Company), the Company agreed to pay Mr. Reverberi a royalty of $200 for each EnergySaver unit made by or for the Company and sold by the Company. Mr. Marino is also paid a royalty of $100 for each unit sold by the Company. The term of the License Agreement is thru December 31, 2007, with automatic renewals available until December 31, 2017, unless written termination is provided by either party of the License Agreement no less than 90 days prior to the automatic renewal date. Approximately $99,000 and $55,000 of expense was incurred under the agreement for the years ended December 31, 2002 and 2001, respectively. The Company has accrued $5,400 and $18,900 in royalties payable at December 31, 2002 and 2001, respectively.

b) The Company entered into employment agreements with certain officers and employees expiring in 2003 through 2005. Total future commitments under these agreements are as follows:

Year ending December 31,	
2003	$ 882,333
2004	576,667
2005	460,000
Total	$ 1,919,000

Note 15 Equity Transactions

a) On October 17, 2000, the Company completed the sale of a package of securities that included 2,000 shares of its Series B Convertible Preferred Stock to the Augustine Fund L.P. ("Augustine"). The Series B Convertible Preferred Stock accrued dividends at the rate of 8% per year, payable at the Company's option in cash or the common stock of the Company. The Series B Convertible Preferred Stock and all accrued but unpaid dividends thereon was convertible at anytime into shares of the Company's common stock at a conversion ratio equal to the lower of $4.06 per share or 75% of the average of the three lowest closing bid prices of our common stock during the 30 consecutive trading days immediately prior to conversion. The Company was obligated to file a registration statement and have it declared effective by April 17, 2001. For every month that the registration statement was not declared effective after April 17, 2001, the Conversion Percentage decreased by 2% per month until (i) the registration statement was declared effective, or (ii) the Series B Convertible Preferred Stock was converted into common stock of the Company.

Augustine elected to convert their 2,000 shares of Series B Convertible Preferred Stock effective June 15, 2001, into 1,472,244 shares of the Company's common stock. The conversion price of $1.36, was calculated as 71% (75% minus 2 percentage points for each thirty days that such registration statement was not declared effective, beginning on April 17, 2001 and ending on June 15, 2001) of the average of the three lowest selling prices per share of the Company's common stock over the 30 consecutive trading days preceding June 15. In addition, the Company elected to pay the accrued dividends on the Series B Convertible Preferred Stock in 56,764 shares of its common stock, which dividends were calculated based upon a conversion price of $1.36 per share. The issuance of this common stock at a conversion price below the market price in satisfaction of the Series B Preferred Stock dividend was deemed to be equivalent to a non-cash preferred dividend. As a result the Company recorded a non-cash deemed dividend on the date of payment of $92,024.

b) As is more fully described in Note 10, in association with the issuance of a Senior Subordinated Promissory Note on April 18, 2001, the Company issued a warrant to purchase 1,700,000 shares of its common stock to Newcourt Capital USA. This warrant had an exercise price of $2.50, a term of 2 years and was valued at $1,717,000 using a modified Black-Sholes option pricing model. The fair value of the warrant was recorded as a discount on the related debt and was amortized over the life of the debt using the interest method. With the issuance of a third Senior Subordinated Promissory Note to Newcourt Capital USA on July 31, 2001, the original warrant was replaced with a warrant issued to Newcourt Capital Securities to purchase 3,314,830 shares of our common stock at $1.00 per share over a seven-year period. This warrant was valued at $1,200,000 using a modified Black-Sholes option pricing model, and the value was recorded as a discount on the related debt and amortized over the life of the note using the interest method.

c) On June 7, 2001, the Company acquired Great Lakes Controlled Energy Corporation from Great Lake's shareholders for 212,904 shares of the Company's common stock valued at $678,500, based on quoted market prices.

d) On July 31, 2001, the Company entered into a securities purchase agreement with five investors under which the Company would receive $16,000,000 in gross proceeds for the issuance of a package of securities that included, in the aggregate, 1,600,000 shares of Series A Convertible Preferred Stock, 320,868 shares of common stock, warrants to purchase 400,000 shares of the Series A Convertible Preferred Stock initially exercisable at a price of $10.00 per share and warrants to purchase 3,000,000 shares of the Company's common stock initially exercisable at a price of $1.00 per share (the

"Transaction"). The investors included Newcourt Capital USA, Inc., Duke Capital Partners, LLC, Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P. and EP Power Finance, L.L.C. (the "Investors"). Gross proceeds of $12 million received from Duke Capital Partners, LLC, Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P. and EP Power Finance, L.L.C. were placed into escrow pending approval of the Transaction by the Company's shareholders. The Transaction was approved by the Company's shareholders at the Company's annual meeting held on August 30, 2001. On September 7, 2001, the Transaction closed and funds were released from escrow. Concurrent with the closing, Newcourt Capital USA converted three of the Company's promissory notes totaling $3,200,000 which it held into 320,000 shares of the Company's Series A Convertible Preferred Stock and also received 80,000 shares of Series A Convertible Preferred Stock, valued at $800,000 as the fee earned by Newcourt Capital Securities (calculated as 5% of the gross proceeds of $16,000,000) for acting as the placement agent on the Transaction.

The total securities issued as part of the Transaction included:

1,200,000 shares of Series A Convertible Preferred Stock issued to the Investors (except Newcourt);

320,000 shares of Series A Convertible Preferred Stock issued to Newcourt Capital USA in exchange for the conversion of $3.2 million of Senior Subordinated Convertible Promissory Notes,

80,000 shares of Series A Convertible Preferred Stock, equal to $800,000, which was the fee (calculated as 5% of the gross proceeds of $16,000,000) earned by Newcourt Capital Securities for acting as the placement agent on the Transaction;

320,868 shares of common stock;

Warrants to purchase 3 million shares of common stock at an initial exercise price of $1.00 per share for a period of seven years; and Warrants to purchase 400,000 of Series A Convertible Preferred Stock at an initial exercise price of $10.00 per share for a period of one year.

On November 29, 2001, the Company entered into a securities purchase agreement with Leaf Mountain Company, LLC ("Leaf Mountain") for the issuance of additional shares our Series A Convertible Preferred Stock. Under the securities purchase agreement, Leaf Mountain was issued the following securities for an aggregate purchase price of $3,000,000:

300,000 shares of our Series A Convertible Preferred Stock;

warrants to purchase 75,000 shares of Series A Convertible Preferred Stock, initially exercisable at a price of $10.00 per share;

45,122 shares of our Common Stock; and

warrants to purchase 421,875 shares of our Common Stock, initially exercisable at a price of $1.00 per share.

Costs of $546,511 related to the issuance of the Series A preferred stock have been recorded as a reduction of the gross proceeds.

The Series A Convertible Preferred Stock carries a dividend rate of 10% per year, which is payable during the first three years following issuance at the Company's option, in cash or additional shares of

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Series A Convertible Preferred Stock. After three years all dividends must be paid in cash and the dividend rate will increase $^1/_2$% every six months until it reaches 15% per year.

The Series A Convertible Preferred Stock is convertible at anytime into shares of the Company's common stock at the conversion rate of ten shares of common stock for each share of Series A Convertible Preferred Stock. Shares of Series A Convertible Preferred Stock have, subject to certain exceptions, anti-dilution protection that will automatically adjust the conversion price of the Series A Convertible Preferred Stock to the price per share of any common stock the Company issues, or is deemed to have issued, if that price per share is less than the then existing conversion price for the Series A Convertible Preferred Stock. The Series A Convertible Preferred Stock is also subject to other customary anti-dilution provisions with respect to stock splits, stock dividends, stock combinations, reorganizations, mergers, consolidations, special distributions, sales of all or substantially all of the Company's assets and similar events.

The Series A Convertible Preferred Stock possesses a liquidation preference over all other classes of the Company's equity. The holders of the Series A Convertible Preferred Stock also have the right to nominate and elect up to four members to our board of directors, depending on the number of shares of Series A Convertible Preferred Stock outstanding. In addition, the holders of the Series A Convertible Preferred Stock have special approval rights over certain matters, including but not limited to, mergers and acquisitions, the issuance of additional debt or equity securities, the sale of assets outside the normal course of business, the payment of dividends, the hiring or firing of our Chief Executive Officer or President, significant capital expenditures, and amendments to the Company's Certificate of Incorporation and/or by-laws that in any way that could adversely affect the rights of the holders of our Series A Convertible Preferred Stock.

Proceeds from the Transaction were allocated to the Series A Convertible Preferred Stock, the common stock and warrants issued as part of the Transaction based on their relative fair values. The Series A Convertible Preferred Stock contained a beneficial conversion feature as a result of its initial conversion price, which was lower than the market value of the Company's common stock on the date of issue. The value of this beneficial conversion feature was determined based on the value allocated to the Series A Convertible Preferred Stock, along with the discount to the market value of the common stock on the date of issuance. The value of the beneficial conversion feature is deemed to be equivalent to a non-cash preferred stock dividend and was limited to the gross proceeds received as part of the Transaction. The Company recorded the deemed dividend on the date of issuance by offsetting charges and credits to additional paid-in capital in the amount of $19,000,000, without any effect on total stockholders equity. The deemed dividend increases the loss applicable to common shareholders in the calculation of the basic and diluted net loss per common share for the year ended December 31, 2001.

e) On December 31, 2001, the Company satisfied the accrued dividend on the Series A Preferred of $669,933 though the issuance of 66,993 shares of its Series A Preferred stock. Since this preferred stock was convertible into common stock at a price below the market price on the date of issuance, the Company was required to recognize a deemed dividend equal to $283,776. This deemed dividend was calculated as the difference between (1) the market value of the common shares into which the Series A shares were convertible on the date of issuance and (2) the $669,933 dividend obligation of the Series A shares.

f) The Company issued 25,500 shares of common stock in exchange for consulting services rendered during the year ended December 31, 2001. As the fair market value of these services was not

readily determinable, these services were valued based on the fair market value of the stock at the time of issuance, which ranged from $2.01 to $3.30 per share. Approximately $153,000 was charged to operations during 2001 to account for the issuance of these shares. Approximately $93,000 was classified as a prepaid expense at December 31, 2000 and was subsequently expensed in 2001 when the related service was provided.

g) During the year ended December 31, 2001 the Company issued warrants in exchange for consulting services rendered which are convertible into 143,500 shares of the Company's common stock at exercise prices ranging from $2.00 per share to $7.50 per share. The value of the warrants was estimated at $56,187 using a modified Black-Sholes option-pricing model, and charged to operations during 2001. In addition, during 2001 and again in 2002 the Company extended the life of warrants to purchase 200,000 shares of the Company's common stock at an exercise price of $2.00 per share in exchange for consulting services provided to the Company. As a result, these warrants were revalued, resulting in an additional expense of $80,000 and $336,000 during the years ended December 31, 2002 and December 31, 2001, respectively.

h) On May 7, 2002, the Company issued 52,454 shares of its common stock pursuant to the exercise of stock options with an exercise price of $1.10. The Company received consulting services as consideration for this exercise.

i) On June 4, 2002, the Company entered into a securities purchase agreement with Richard Kiphart under which the Company received $2,000,000 in gross proceeds for the issuance of a package of securities that included 200,000 shares of Series C Convertible Preferred Stock, 30,082 shares of common stock, warrants to purchase 50,000 shares of the Series C Convertible Preferred Stock initially exercisable at a price of $10.00 per share and warrants to purchase 281,250 shares of the Company's common stock initially exercisable at a price of $1.00 per share.

The Series C Convertible Preferred Stock carries a dividend rate of 10% per year, which is payable during the first three years following issuance at the Company's option, in cash or additional shares of Series C Convertible Preferred Stock. After three years all dividends must be paid in cash and the dividend rate will increase $^1/_2$% every six months until it reaches 15% per year.

The Series C Convertible Preferred Stock is convertible at anytime into shares of the Company's common stock at the conversion rate of ten shares of common stock for each share of Series C Convertible Preferred Stock. Shares of Series C Convertible Preferred Stock have, subject to certain exceptions, anti-dilution protection that will automatically adjust the conversion price of the Series C Convertible Preferred Stock to the price per share of any common stock the Company issues, or is deemed to have issued, if that price per share is less than the then existing conversion price for the Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock is also subject to other customary anti-dilution provisions with respect to stock splits, stock dividends, stock combinations, reorganizations, mergers, consolidations, special distributions, sales of all or substantially all of the Company's assets and similar events.

The Series C Convertible Preferred Stock shares with the Series A Convertible Preferred Stock a liquidation preference over all other classes of the Company's equity. The holders of the Series C

Convertible Preferred Stock also share with the holders of the Series A Convertible Preferred Stock certain rights, including:

- the right to nominate and elect up to four members to our board of directors, depending on the number of shares of Series A and Series C Convertible Preferred Stock outstanding.

- special approval rights over certain matters, including but not limited to, mergers and acquisitions, the issuance of additional debt or equity securities, the sale of assets outside the normal course of business, the payment of dividends, the hiring or firing of our Chief Executive Officer or President, significant capital expenditures, and amendments to the Company's Certificate of Incorporation and/or by-laws that in any way that could adversely affect the rights of the holders of the Series A and/or Series C Convertible Preferred Stock.

Proceeds from the Transaction were allocated to the Series C Convertible Preferred Stock, the common stock and warrants issued as part of the Transaction based on their relative fair values. The Series C Convertible Preferred Stock contained a beneficial conversion feature as a result of its initial conversion price, which was lower than the market value of the Company's common stock on the date of issue. The value of this beneficial conversion feature was determined based on the value allocated to the Series C Convertible Preferred Stock, along with the discount to the market value of the common stock on the date of issuance. The value of the beneficial conversion feature is deemed to be equivalent to a non-cash preferred stock dividend. The Company recorded the deemed dividend on the date of issuance by offsetting charges and credits to additional paid-in capital in the amount of $1,444,697, without any effect on total stockholders equity. The deemed dividend increases the loss applicable to common shareholders in the calculation of the basic and diluted net loss per common share for the year ended December 31, 2002.

j) During the year ended December 31, 2002, two of our stockholders unintentionally violated Section 16(b) of the Securities Act of 1934 by selling and then repurchasing shares of the Company's common stock during a six-month period (a "short-swing" profit). Pursuant to the Act, the shareholders are required to turn over the short-swing profits, which totaled $2,098 to the Company. The Company received $1,300 from one of the shareholders during 2002, and $798 was received from the other shareholder subsequent to year-end.

k) On December 16, 2002, the Company entered into a securities purchase agreement with the Munder Power Plus Fund ("Munder"), whereby it issued in exchange for $1,000,000 in gross proceeds, a package of securities that included 1,086,957 shares of its common stock and a five year warrant to purchase 300,000 additional shares of its common stock at an initial exercise price of $0.92 per share. The Company is required to reduce the exercise price on the warrant to $0.75 per share if on the date that the Company files its Report 10-KSB for fiscal year 2003 with the Securities and Exchange Commission (i) the Company's consolidated revenue reported in such 10-KSB is less than $25 million and (ii) the closing price of the Company's Common Stock on such date of filing is less than $2.00 per share.

The holders of the Series A Convertible Preferred stock and the Series C Convertible Preferred stock waived their rights to adjust the conversion price of their preferred shares and the exercise price on their warrants as a result of the issuance price of the common stock and the exercise price of the warrant issued in this transaction. Also, as a condition to the sale the Company agreed to file a registration statement with the Securities and Exchange Commission within 90 days for the resale of

Munder's shares which Munder agreed to extend until immediately following the filing of this Annual Report as Form 10-KSB.

The Company issued a three-year warrant to purchase 50,000 shares of its common stock at $1.00 per share to Capstone Investments as part of the commission on this transaction.

l) During the year ended December 31, 2002, the Company satisfied the accrued dividend on its preferred stock of $2,158,418 though the issuance of 204,199 shares of its Series A Preferred stock and 11,643 shares of its Series C Preferred stock. Since these shares of preferred stock were convertible into common stock at a price below the market price on the dates of issuance, the Company was required to recognize deemed dividends of $495,589 on the shares issued in satisfaction of the Series A Preferred dividend and $12,403 on the shares issued in satisfaction of the Series C Preferred dividend. These deemed dividends were calculated as the difference between (1) the market value of the common shares into which the Series A shares were convertible on the dates of issuance and (2) the accrued dividend obligation on the outstanding preferred stock.

m) The Company had outstanding warrants to purchase 8,012,955 and 7,411,705 shares of its common stock as of December 31, 2002 and 2001, respectively, at an exercise price of between $0.92 per share and $7.50 per share. These warrants expire between June 2003 and September 2008.

n) As of December 31, 2001 the Company had outstanding warrants to purchase 475,000 shares of its Series A Convertible Preferred stock at an exercise price of $10.00 per share. These warrants all expired during 2002.

o) As of December 31, 2002 the Company had an outstanding warrant to purchase 50,000 shares of its Series C Convertible Preferred stock at an exercise price of $10.00 per share. This warrant will expire on June 4, 2003.

Note 16 Dividends

Dividends are comprise of the following:

	Year ended December 31,	
	2002	2001
Deemed dividend associated with beneficial conversion feature of Series A Convertible Preferred Stock (see note 15d)	$	$ 19,000,000
Accrual of Dividend on Series A Convertible Preferred (see note 15e and 151)	2,041,992	669,933
Deemed dividend associated with beneficial conversion price on shares issuable in satisfaction of Series A Convertible Preferred dividend (See notes 15e and 151)	495,589	283,776
Accrual of Series B Preferred dividend		73,206
Deemed dividend associated with beneficial conversion price on shares issued in satisfaction of Series B Preferred dividend (See note 15a)		92,024
Deemed dividend associated with beneficial conversion feature of Series C Convertible Preferred Stock dividend (See note 15i)	1,444,697	
Accrual of Series C Preferred dividend (see note 151)	116,426	
Deemed dividend associated with beneficial conversion price on shares issued in satisfaction of Series C Preferred dividend (See note 151)	12,403	
Total	$ 4,111,107	$ 20,118,939

Note 17 Stock Options

On August 30, 2001, the Company's shareholders approved the adoption of the 2001 Stock Incentive Plan (the "Plan"), which provides that up to 800,000 shares of the Company's common stock may be delivered under the Plan to certain employees of the Company or any of its subsidiaries. In addition, the Plan provides for an additional 500,000 shares of the Company's common stock to be reserved on January 1st of each succeeding year, beginning January 1, 2002. The awards to be granted under the Plan may be incentive stock options or non-qualified stock options. The exercise price for any incentive stock option ("ISO") may not be less than 100% of the fair market value of the stock on the date the option is granted, except that with respect to a participant who owns more than 10% of the common stock the exercise price must be not less than 110% of fair market value. The exercise price of any non-qualified option shall be in the sole discretion of the Compensation Committee or Board. The aggregate fair market value of the shares that may be subject to any ISO granted to any participant may not exceed $100,000 on the date of grant. There is no comparable limitation with respect to non-qualified stock options. The term of all options granted under the Plan will be

determined by the Compensation Committee or Board in their sole discretion, provided, however, that the term of each ISO shall not exceed 10 years from the date of grant thereof.

In addition to the ISOs and non-qualified options, the Plan permits the Compensation Committee, consistent with the purposes of the Plan, to grant shares of Common Stock to non-employee directors and such employees (including officers and directors who are employees) of, or consultants to, the Company or any of its Subsidiaries, as the Committee may determine, in its sole discretion.

The Plan is administered by the Board, which is authorized to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan and to determine the employees to whom, and the time, terms and conditions under which, options are to be granted. The Board may also amend, suspend or terminate the Plan in any respect at any time. However, no amendment may (i) increase the number of shares reserved for option under the Plan, (ii) modify the requirements for participation in the Plan, or (iii) modify the Plan in any way that would require stockholder approval under the rules and regulations under the Exchange Act.

As of December 31, 2002, there were approximately 40 employees, officers and directors of the Company eligible to participate in the Plan, and 1,300,000 shares of Common Stock reserved under the Plan.

During 2001, certain directors, officers and key employees of the Company were granted options to acquire 1,611,834 shares of common stock at exercise prices ranging from $1.51 to $7.50 per share. These options vest over periods through June 2007.

During 2002, certain directors, officers and key employees of the Company were granted options to acquire 400,000 shares of common stock at exercise prices ranging from $1.00 to $1.34 per share. These options vest over periods through November 2005.

The following table summarizes the options granted, exercised and outstanding as of December 31, 2002:

	Shares	Exercise Price Per Share	Weighted Average Exercise Price
Outstanding at December 31, 2000	8,603,503	$1.10 - $12.99	$ 4.05
Granted	1,611,834	$1.51 - $ 7.50	$ 5.32
Exercised			
Forfeited	(440,703)	$3.50 - $12.99	$ 7.17
Outstanding at December 31, 2001	9,774,634	$1.10 - $12.99	$ 4.12
Granted	400,000	$1.00 - $ 1.34	$ 1.10
Exercised	(52,454)	$1.10 - $ 1.10	$ 1.10
Forfeited	(973,332)	$1.75 - $ 7.75	$ 6.18
Outstanding at December 31, 2002	9,148,848	$1.00 - $12.99	$ 3.78
Options exercisable at December 31, 2002	7,910,103	$1.00 - $12.99	$ 3.63
Options exercisable at December 31, 2001	7,078,637	$1.10 - $12.99	$ 3.22

	Shares	Exercise Price Per Share	Weighted Average Exercise Price

The weighted-average, grant-date fair value of stock options granted to employees during the year, and the weighted-average significant assumptions used to determine those fair values, using a modified Black-Sholes option pricing model for stock options under Statement of Financial Accounting Standards No. 123 are as follows:

	Year ended December 31,	
	2002	2001
Weighted average fair value per options granted	$ 1.73	$ 2.62
Significant assumptions (weighted average):		
Risk-free interest rate at grant date	1.62%	5.15%
Expected stock price volatility	71%	94%
Expected dividend payout		
Expected option life (years)	8.7	8.2

The following table summarizes information about stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at December 31, 2002	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2002	Weighted Average Exercise Price
$1.00 - $2.00	4,955,880	6.2 years	$ 1.21	4,564,217	$ 1.22
$2.01 - $4.00	208,334	8.0 years	3.22	100,001	3.59
$4.01 - $6.00	175,000	7.5 years	4.53	125,000	4.51
$6.01 - $8.00	3,757,334	7.5 years	7.09	3,118,585	7.08
$8.01 - $10.00	52,000	7.2 years	9.00	2,000	9.00
$10.01 - $13.00	300	8.3 years	12.99	300	12.99
	9,148,848	6.8 years	$ 3.78	7,910,103	$ 3.63

Note 18 Related Parties

Related party transactions, other that those disclosed in Note 12 consist of the following:

a) On January 5, 2000, the Company entered into a distributor agreement with Electric City of Southern California L.L.C., of which Joseph Marino is a member, which provides for an initial term of 10 years. Mr. Marino is one of the Company's founders and its former Chairman and CEO. The agreement grants to Electric City of Southern California a distribution territory which extends from Monterey to Fresno to the northern edge of Death Valley, south to the southern border of California. This agreement provides for terms which members of the Company's board believe are substantially similar to those of other distributor agreements and as favorable to the Company as if negotiated with an unaffiliated third party. Approximately $59,000 and $439,000 due from Electric City of Southern California is included in accounts receivable at December 31, 2002 and 2001, respectively.

b) In October 2000, the Company entered into an agreement with KMC Telecom (for which Roscoe Young, one of the Company's directors at the time, is President and Chief Operating Officer) to sell and install the Company's TP3 switchgear product at three KMC Telecom facilities. The sale and installation amount for the three sites totaled $773,802, of which $435,551 was recognized in 2000 and $338,951 was recognized in 2001. The aggregate amount was reflective of prices that would be charged to an unrelated third party. Installation of the TP3 switchgear began in November 2000 and was completed in June 2001.

c) The Augustine Fund, L.P. (which owned all of the Company's outstanding shares of series B convertible preferred stock) and Messrs. Conant, Konstant, Marino, McEneely and Stelter (each, a "Restricted Stockholder") have each entered into separate trading agreements with the Company which are effective for a term of three years beginning on October 17, 2000. The trading agreements restrict each Restricted Stockholder's transfer of the Company's common stock as follows:

- sales in any one trading day by such Restricted Stockholder shall not exceed the greater of 10,000 shares or 10% of the average trading volume of the Company's stock during the 10 prior trading days;

- public trades in an opening transaction during the last half hour of any trading day and at any time outside of regular trading hours shall be prohibited by such Restricted Stockholder; and

- up to four times within any 12-month period, the Company may prohibit any Restricted Stockholder from trading the common stock for an entire trading day.

The Company has agreed to give each Restricted Stockholder a right of first refusal to sell its common stock to any third party that contacts the Company with a desire to purchase 100,000 or more shares of its common stock. This right will be allocated equally among each of the Restricted Stockholders who elect to participate in the sale. However, this right of first refusal will not preclude the Company from raising additional capital should such need arise.

d) The Company's subsidiary, Switchboard Apparatus, Inc. paid $152,870 and $328,323 during the years ended December 31, 2002 and December 31, 2001, respectively, to Harbrook Tool and Manufacturing Company ("Harbrook") for manufacturing and installing safety devices to distribution panels made by various manufacturers. A minority owner of Harbrook is Mr. Terry Hoppensteadt, who is a brother of Dale Hoppensteadt, the president of Switchboard Apparatus. We believe the amounts paid for such work are consistent with that which would be paid to an unrelated third party.

Note 19 Business Segment Information

Since January 1, 2001, the Company has organized and managed its business in three distinct segments: the Energy Technology segment, the Power Management segment and the Building Control and Automation segment. In classifying its operational entities into a particular segment, the Company segregated its businesses with similar economic characteristics, products and services, production processes, customers, and methods of distribution into distinct operating groups.

The Energy Technology segment designs, manufacturers and markets energy saving technologies, primarily to commercial and industrial customers. The principal products produced by this segment are the EnergySaver and the Global Commander. This segment is headquartered, and most of its operations are located, in Elk Grove Village, Illinois.

The Power Management segment designs, manufactures and markets a wide range of commercial and industrial switching gear and distribution panels. This segment is comprised of the business acquired from Marino Electric in May 1999 and Switchboard Apparatus, which was acquired in August 2000. The segment operates as Switchboard Apparatus out of facilities located in Broadview, Illinois.

The Building Control and Automation segment provides integration of building and environmental control systems for commercial and industrial customers. This segment is comprised of Great Lakes Controlled Energy Corp., a company that was acquired in June 2001. The 2001 financial information presented below only represents seven months of results for this segment. Great Lakes Controlled Energy is headquartered in, and operates out of its own facility, located in Elk Grove Village, Illinois.

An analysis and reconciliation of the company's business segment information to the respective information in the consolidated financial statements is as follows:

	Year ended December 31,	
	2002	2001
Revenues:		
Energy Technology	$ 3,090,005	$ 1,887,349
Power Management	6,659,067	7,658,411
Building Control and Automation	2,925,384	340,799
Intercompany sales Energy Technology	(37,343)	(1,140)
Intercompany sales Power Management	(427,317)	(201,865)
Intercompany sales Building Control and Automation	(443,524)	(59,348)
Total	11,766,272	9,624,206
Operating Loss:		
Energy Technology	(3,217,203)	(4,744,936)
Power Management	(1,215,873)	(1,902,488)
Building Control and Automation(1)	(816,971)	(415,483)
Corporate	(1,702,147)	(2,446,552)
Total	(6,952,194)	(9,509,459)
Interest Expense, net	(55,733)	(3,461,618)
Loss before cumulative effect of accounting change	(7,007,927)	(12,971,077)
Cumulative effect of accounting change	(4,103,872)	
Net Loss	(11,111,799)	(12,971,077)
Depreciation and Amortization:		
Energy Technology	76,367	106,318
Power Management	148,400	672,433
Building Control and Automation	7,284	34,990
Total	232,051	813,741
Capital Additions:		
Energy Technology	8,829	35,338
Power Management	2,342	71,730
Building Control and Automation	6,316	14,518
Total	17,487	121,586

	Year ended December 31,	
Total Assets:		
Energy Technology	4,999,300	11,434,300
Power Management	2,880,412	4,298,666
Building Control and Automation	1,028,839	702,897
Total	$ 8,908,551	$ 16,435,863

(1) Includes $108,000 impairment loss

Note 20 Subsequent Event

On February 27, 2003, the Company entered into a securities purchase agreement with SF Capital Partners ("SF"), whereby it issued in exchange for $1,000,000 in gross proceeds, a package of securities that included 1,086,957 shares of its common stock and a five year warrant to purchase 300,000 additional shares of its common stock at an initial exercise price of $1.00 per share. The Company is required to reduce the exercise price on the warrant to $0.75 per share if on the date that the Company files its Report 10-KSB for fiscal year 2003 with the Securities and Exchange Commission (i) the Company's consolidated revenue reported in such 10-KSB is less than $25 million and (ii) the closing price of the Company's Common Stock on such date of filing is less than $2.00 per share.

The holders of the Series A Convertible Preferred stock and the Series C Convertible Preferred stock waived their rights to adjust the conversion price of their preferred shares and the exercise price on their warrants as a result of the issuance price of the common stock and the exercise price of the warrant issued in this transaction. Also, as a condition to the sale the Company agreed to file a registration statement with the Securities and Exchange Commission within 90 days for the resale of SF's shares.

The Company issued a three-year warrant to purchase 50,000 shares of its common stock at $1.00 per share to Capstone Investments as part of the commission on this transaction.

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